

No. 91-1043-CFX Title: Professional Real Estate Investors, Inc., et al.,
Status: GRANTED Petitioners
v.
Columbia Pictures Industries, Inc., et al.

Docketed:
December 23, 1991 Court: United States Court of Appeals for
the Ninth Circuit

Counsel for petitioner: Coyne, Patrick J.

Counsel for respondent: Kroft, Stephen A.

Entry	Date	Note	Proceedings and Orders
1	Dec 23 1991	G	Petition for writ of certiorari filed.
3	Jan 13 1992		Order extending time to file response to petition until February 21, 1992.
4	Feb 19 1992		Brief of respondents Columbia Pictures Industries, et al. in opposition filed.
5	Feb 26 1992		DISTRIBUTED. March 20, 1992
6	Mar 6 1992	X	Reply brief of petitioners Prof. Real Estate, et al. filed.
8	Mar 23 1992		REDISTRIBUTED. March 27, 1992
9	Mar 30 1992		Petition GRANTED. *****
10	May 14 1992		Joint appendix filed.
		*	Joint Appendix in two volumes
11	May 14 1992		Brief of petitioners Professional Real Estate Investors, et al. filed.
12	Jun 15 1992		Brief of respondent Columbia Picture Industries, Inc., et al. filed.
13	Jun 15 1992		Brief amici curiae of United States and FTC filed.
14	Jul 14 1992	X	Reply brief of petitioners Professional Real Estate Investors, et al. filed.
15	Jul 14 1992		CIRCULATED.
16	Aug 21 1992		SET FOR ARGUMENT MONDAY, NOVEMBER 2, 1992. (3RD CASE).
17	Sep 29 1992		Record filed.
		*	Partial proceedings United States Court of Appeals for the Ninth Circuit.
18	Oct 13 1992		Record filed.
		*	Original proceedings United States District Court, Central District of California (1 BOX)
19	Nov 2 1992		ARGUED

91-1043

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No. 91-____

IN THE
Supreme Court of the United States
OCTOBER TERM, 1991

PROFESSIONAL REAL ESTATE INVESTORS, INC.,
AND
KENNETH F. IRWIN,
Petitioners,
v.

COLUMBIA PICTURES INDUSTRIES, INC.,
EMBASSY PICTURES,
PARAMOUNT PICTURES CORPORATION,
TWENTIETH CENTURY FOX FILM CORPORATION,
UNIVERSAL CITY STUDIOS, INC.,
WALT DISNEY PRODUCTIONS,
WARNER BROS., INC., AND
CBS INC.,
Respondents.

**PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF
APPEALS FOR THE NINTH CIRCUIT**

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QUESTION PRESENTED

Whether the Ninth Circuit misconstrued the sham exception to the *Noerr-Pennington* doctrine by refusing to consider evidence that the lawsuit in question was not pursued with a genuine desire to obtain a favorable judgment, after it initially concluded that the lawsuit was not "baseless" as a matter of law?

PARTIES TO THE PROCEEDING

All of the parties to the proceeding below are set forth in the caption to the case. Pursuant to Rule 29.1 of the Rules of this Court, petitioners state that Professional Real Estate Investors, Inc. does not have any non-wholly owned subsidiaries, and has no parent corporation.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	i
PARTIES TO THE PROCEEDING	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	v
OPINIONS BELOW	2
JURISDICTION	2
STATUTORY PROVISIONS INVOLVED	2
STATEMENT OF THE CASE	2
REASONS FOR GRANTING THE PETITION	7
SUMMARY OF ARGUMENT	7
I. The Ninth Circuit Has Ignored This Court's Teaching That A Genuine Intent To Obtain Judicial Relief Is The Basis For Determining Whether The Litigation Is A Sham	8
A. The Ninth Circuit Misconstrued <i>Bill Johnson's Restaurants, Inc. v. N.L.R.B.</i> In Support Of Its Holding	13
II. The Ninth Circuit's Standard For Analyzing Sham Allegations Is Inconsistent With The Standards Of Every Other Circuit	18
III. This Case Presents A Particularly Appealing Vehicle For Resolving Confusion Among The Circuits With Respect To An Important Antitrust Doctrine	26
CONCLUSION	30
APPENDIX A: Opinion of the Ninth Circuit Court of Appeals (September 24, 1991) (944 F.2d 1525)	1a

Appendix B: Amended Summary Judgment of the District Court (April 9, 1990)	20a
APPENDIX C: Memorandum of Decision of the District Court (March 1, 1990) (1990-1 Trade Cas. (CCH) ¶ 68,971)	23a
APPENDIX D: Opinion of the Ninth Circuit Court of Appeals (January 17, 1989) (866 F.2d 278)	26a
APPENDIX E: Judgment of the District Court (entered on January 23, 1986)	38a
APPENDIX F: Findings of Fact, Conclusions of Law and Order of the District Court (January 13, 1986) (228 U.S.P.Q. (BNA) 743)	40a
APPENDIX G: United States Statutes Involved ..	51a
APPENDIX H: California Statutes Involved	52a

TABLE OF AUTHORITIES

CASES:	Pages
<i>Allied Tube & Conduit Corp. v. Indian Head, Inc.</i> , 486 U.S. 492 (1988)	10,12
<i>Appalachian Coals, Inc. v. United States</i> , 288 U.S. 344 (1933)	16
<i>Bill Johnson's Restaurants, Inc. v. NLRB</i> , 461 U.S. 731 (1983)	13,14,15,17
<i>In re Burlington Northern, Inc.</i> , 822 F.2d 518 (5th Cir. 1987), <i>cert. denied</i> , 484 U.S. 1007 (1988)	<i>passim</i>
<i>California Motor Transport Co. v. Trucking Unlimited</i> , 404 U.S. 508 (1972)	<i>passim</i>
<i>Chicago & Grand Trunk Ry. Co. v. Wellman</i> , 143 U.S. 339 (1892)	28
<i>Coastal States Marketing, Inc. v. Hunt</i> , 694 F.2d 1358 (5th Cir. 1983)	19,24
<i>Collins & Aikman Corp. v. Stratton Indus., Inc.</i> , 728 F. Supp. 1570 (N.D. Ga. 1989)	22
<i>Columbia v. Omni Outdoor Advertising, Inc.</i> , 111 S.Ct. 1344 (1991)	8,10,13
<i>Columbia Pictures Indus., Inc. v. Professional Real Estate Investors, Inc.</i> , 944 F.2d 1525 (9th Cir. 1991)	<i>passim</i>
<i>Columbia Pictures Indus., Inc. v. Redd Horne, Inc.</i> , 749 F.2d 154 (3d Cir. 1984)	20,26
<i>Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.</i> , 365 U.S. 127 (1961)	8,9,10
<i>Eden Hannon & Co. v. Sumitomo Trust & Banking Co.</i> , 914 F.2d 556 (4th Cir. 1990), <i>cert. denied</i> , 111 S.Ct. 1414 (1991)	20,26
<i>Fed. Prescription Service, Inc. v. Am. Pharmaceutical Ass'n</i> , 663 F.2d 253 (D.C. Cir. 1981), <i>cert. denied</i> , 455 U.S. 928 (1982)	22

Table of Authorities Continued

	Page
<i>First Am. Title Co. of South Dakota v. South Dakota Land Title Ass'n</i> , 714 F.2d 1439 (8th Cir. 1983), <i>cert. denied</i> , 464 U.S. 1042 (1984)	21
<i>G. Heileman Brewing Co., Inc. v. Anheuser-Busch Inc.</i> , 676 F. Supp. 1436 (E.D. Wis. 1987), <i>aff'd</i> , 873 F.2d 985 (7th Cir. 1989)	19
<i>Gainesville v. Florida Power & Light Co.</i> , 488 F. Supp. 1258 (S.D. Fla. 1980)	9
<i>Granfield v. Catholic Univ. of Am.</i> , 530 F.2d 1035 (D.C. Cir.), <i>cert. denied</i> , 429 U.S. 821 (1976)	28
<i>Greenwood Utilities Comm'n v. Mississippi Power Co.</i> , 751 F.2d 1484 (5th Cir. 1985)	22
<i>Grip-Pak, Inc. v. Illinois Tool Works, Inc.</i> , 694 F.2d 466 (7th Cir. 1982), <i>cert. denied</i> , 461 U.S. 958 (1983)	19,22,23,25,28
<i>Hosp. Bldg. Co. v. Trustees of Rex Hosp.</i> , 791 F.2d 288 (4th Cir. 1986)	20,21
<i>Hydro-Tech Corp. v. Sunstrand Corp.</i> , 673 F.2d 1171 (10th Cir. 1982)	21
<i>Juster Assoc. v. Rutland</i> , 901 F.2d 266 (2d Cir. 1990)	20
<i>Litton Systems, Inc. v. Am. Tel. & Tel. Co.</i> , 700 F.2d 785 (2d Cir. 1983), <i>cert. denied</i> , 464 U.S. 1073 (1984)	20
<i>MCI Communications Corp. v. Am. Tel. & Tel. Co.</i> , 708 F.2d 1081 (7th Cir.), <i>cert. denied</i> , 464 U.S. 891 (1983)	9,19,22,28
<i>Mark Aero, Inc. v. Trans World Airlines, Inc.</i> , 580 F.2d 288 (8th Cir. 1978)	21
<i>Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.</i> , 475 U.S. 574 (1986)	26
<i>Monsanto Co. v. Spray-Rite Service Corp.</i> , 465 U.S. 752 (1984)	26

Table of Authorities Continued

	Page
<i>National Collegiate Athletic Ass'n v. Board of Regents</i> , 468 U.S. 85 (1984)	16
<i>Parker v. Brown</i> , 317 U.S. 341 (1943)	10
<i>Premier Electrical Constr. Co. v. Nat'l Electrical Contractors Ass'n</i> , 814 F.2d 358 (7th Cir. 1987)	19,25
<i>Razorback Ready Mix Concrete Co., Inc. v. Weaver</i> , 761 F.2d 484 (8th Cir. 1985)	21,26
<i>St. Joseph's Hosp., Inc. v. Hosp. Corp. of Am.</i> , 795 F.2d 948 (11th Cir. 1986)	22
<i>Sessions Tank Liners, Inc. v. Joor Mfg., Inc.</i> , 827 F.2d 458 (9th Cir. 1987), <i>vacated</i> , 487 U.S. 1213 (1988)	12
<i>South Dakota v. Kansas City Southern Indus., Inc.</i> , 880 F.2d 40 (8th Cir. 1989), <i>cert. denied</i> , 493 U.S. 1023 (1990)	14,21
<i>Sure-Tan, Inc. v. NLRB</i> , 467 U.S. 883 (1984)	15
<i>United Mine Workers of Am. v. Pennington</i> , 381 U.S. 657 (1965)	8,9,10
<i>United States v. Johnson</i> , 319 U.S. 302 (1943)	28
<i>United States v. Topco Assoc., Inc.</i> , 405 U.S. 596 (1972)	16
<i>Westmac, Inc. v. Smith</i> , 797 F.2d 313 (6th Cir. 1986), <i>cert. denied</i> , 479 U.S. 1035 (1987)	<i>passim</i>
<i>Winterland Concessions Co. v. Trela</i> , 735 F.2d 257 (7th Cir. 1984)	9,19
STATUTES:	
15 U.S.C. §§ 1, 2	2
28 U.S.C. 1254(1)	2
29 U.S.C. §§ 158(a)(1), (4)	13
Cal. Bus. & Prof. Code §§ 16720, 16726 (West 1987)	2

Table of Authorities Continued

Page

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IN THE
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 OCTOBER TERM, 1991

 No. 91-

PROFESSIONAL REAL ESTATE INVESTORS, INC.,
 AND
 KENNETH F. IRWIN,
Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,
 EMBASSY PICTURES,
 PARAMOUNT PICTURES CORPORATION,
 TWENTIETH CENTURY FOX FILM CORPORATION,
 UNIVERSAL CITY STUDIOS, INC.,
 WALT DISNEY PRODUCTIONS,
 WARNER BROS., INC., AND
 CBS, INC.,
Respondents.

**PETITION FOR A WRIT OF CERTIORARI
 TO THE UNITED STATES COURT OF
 APPEALS FOR THE NINTH CIRCUIT**

Petitioners respectfully petition for a writ of certiorari to review the decision of the United States Court of Appeals for the Ninth Circuit which affirmed the decision of the United States District Court for the Central District of California that (1) granted summary judgment in favor of respondents on all of petitioners' antitrust counterclaims; and (2) dismissed petitioners' pendent state claims.

OPINIONS BELOW

The September 24, 1991 opinion of the United States Court of Appeals for the Ninth Circuit is reported at 944 F.2d 1525 and reproduced in Appendix ("App.") A, pp. 1a-19a. The Amended Summary Judgment of the district court, entered April 9, 1990, is not reported; it is reproduced in App. B, pp. 20a-22a. The Memorandum of Decision of the district court is reported at 1990-1 Trade Cas. (CCH) ¶ 68,971 (C.D. Cal. 1990) and reproduced in App. C, pp. 23a-25a.

The opinions of the Court of Appeals for the Ninth Circuit and the district court in the underlying copyright infringement action (which do not constitute a part of this appeal) are also reproduced for the convenience of the Court. The January 17, 1989 opinion of the Court of Appeals for the Ninth Circuit is reported at 866 F.2d 278 and reproduced in App. D, pp. 26a-37a. The Judgment entered by the district court on January 23, 1986 is not reported; it is reproduced in App. E, pp. 38a-39a. The Findings of Fact, Conclusions of Law, and Order of the district court are reported at 228 U.S.P.Q. (BNA) 743 (C.D. Cal. 1986) and reproduced in App. F, pp. 40a-50a.

JURISDICTION

The judgment of the Court of Appeals was entered on September 24, 1991. This Court has jurisdiction to review the judgment of the Court of Appeals by writ of certiorari pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2, are reproduced in App. G, p. 51a. Section 1 of the Cartwright Act, as codified at Cal. Bus. & Prof. Code §§ 16720, 16726 (West 1987), are reproduced in App. H, p. 52a-53a.

STATEMENT OF THE CASE

This case involves an early skirmish in the battle to provide video entertainment to travelers in the United

States. Today, of course, that battle is largely over, won by cable and satellite transmission services and the motion picture studios from which they obtain most of their entertainment programming. During the early 1980s, however, it was not at all clear which competitors, or even which technologies, would prevail. Many firms, offering recorded entertainment in a variety of formats, competed avidly for a place in the market. Petitioners, Kenneth F. Irwin and Professional Real Estate Investors, Inc. (collectively "PRE"), were among the earliest competitors.

Petitioners are the proprietors of La Mancha Private Club and Villas ("La Mancha"), a resort facility in Palm Springs, California. App. A, pp. 4a-5a. In 1981, PRE introduced what was, at the time, a highly innovative service in the nascent in-room video entertainment market. PRE installed individual videodisc players in each of its fifty guest villas, purchased a library of popular movies and other entertainments recorded on videodiscs, and invited its guests to rent the videodiscs and watch them in their villas. App. A, p. 29a.

In the fall of 1982, respondents (eight major motion picture studios ("the Studios")) sent PRE a letter protesting that PRE's videodisc rental service infringed the Studios' copyrights in the movies recorded on the videodiscs. App. F, p. 44a. The Studios warned that they would take legal action if PRE did not discontinue its innovative service. PRE contended that its service was entirely lawful under the copyright laws.

On April 25, 1983, the Studios made good on their threats, filing a copyright infringement lawsuit against PRE. App. A, p. 4a; App. F, p. 44a. The crux of the Studios' complaint was that PRE's videodisc rental service gave rise to unlawful public performances of the Studios' copyrighted movies. App. F, p. 40a. PRE denied any wrongdoing and counterclaimed that by colluding to undermine PRE's innovative and popular service, the Studios had violated Sections 1 and 2 of the Sherman Act and a number of state antitrust and unfair competition laws.

¶¶ 34, 39, 45, Answer and Counterclaims of Petitioners, Ex. F to the Record on Appeal to the Ninth Circuit, pp. 29-32 (see also App. A., p. 5a).¹

From the outset of its litigation with the Studios, PRE was stymied in pursuing its antitrust counterclaims. Simply put, the Studios adopted a policy of refusing to respond to PRE's basic discovery requests. The Studios' intransigence ultimately gave rise to PRE's First Motion to Compel Discovery. Shortly thereafter, PRE and the Studios filed cross-motions for summary judgment on the Studios' copyright infringement claim. When it received the cross-motions, the district court directed the parties to "postpone[] further discovery on the antitrust counterclaims pending resolution of the cross-motions." App. A, p. 5a.

In January 1986, the court granted PRE's motion for summary judgment on the copyright infringement claim and denied the Studios' motion. It concluded that PRE's rental of videodiscs to guests at La Mancha did not infringe the Studios' copyrights. The court held that the videodisc rental service did not give rise to copyright infringement because the viewing of videos in the guest villas at La Mancha was not a public performance. App. F, p. 48a. The Studios appealed this decision to the Ninth Circuit Court of Appeals.

After it prevailed in the copyright infringement action, PRE resumed pursuit of its antitrust counterclaims. PRE reiterated its requests for production of relevant documents, but once again the Studios refused to respond. PRE filed a Second Motion to Compel Discovery, App. A, p. 5a, but the district court stayed further discovery on PRE's antitrust counterclaims, reasoning that "the result of the appeal might affect the scope of discovery" required in the antitrust action. App. A, p. 6a.

¹ PRE's pendent claims under California's antitrust law, the Cartwright Act, were dismissed by the District Court for lack of subject matter jurisdiction following dismissal of the Sherman Act claims. App. B, p. 21a. That dismissal was affirmed by the Ninth Circuit. App. A, p. 19a.

The Studios' appeal was delayed several times by changes in the composition of the Ninth Circuit panel. Three years after the appeal was filed, the Ninth Circuit affirmed the district court's decision to grant PRE's motion for summary judgment on the Studios' copyright infringement claim. App. D, p. 26a. Following the Ninth Circuit's decision, the district court's stay of discovery was lifted and PRE *once again* resumed pursuit of its antitrust counterclaims. The Studios eventually produced a ludicrously small number of documents *after* a discovery deadline agreed upon by all of the litigants had passed.

Shortly after their niggardly document production, the Studios moved for summary judgment on PRE's antitrust counterclaims. PRE opposed this motion, arguing that it had not yet received discovery relevant to its claims. Nonetheless, the district court refused to resolve pending motions to compel and granted the Studios' motion on March 1, 1990. Apps. B, C. It reasoned that the Studios were immune from antitrust liability under the *Noerr-Pennington* doctrine because the Studios' copyright lawsuit was not a sham. The court emphasized that:

It was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the court of appeals had trouble with it as well. I find that there was probable cause for bringing the action. . .

App. B, p. 24a.

PRE appealed, arguing that summary judgment in favor of the Studios on the antitrust counterclaims was inappropriate for three reasons. First, the court failed to permit PRE to take full discovery from the Studios after the stay of discovery was lifted. Second, the court failed to consider any of PRE's other allegations of anticompetitive conduct other than the evidence relating to the Studios'

lawsuit. Finally, the court mistakenly concluded that the Studio's lawsuit was not a sham. App. A, p. 7a.

The Ninth Circuit found no error in the district court's decision to grant the Studios' summary judgment motion on PRE's antitrust counterclaims. Specifically, the court found that the district court had applied the *Noerr-Pennington* doctrine properly.

The Ninth Circuit began its decision by stating that the Supreme Court "has identified two types of sham activity: 'misrepresentations . . . in the adjudicatory process' and the pursuit of 'a pattern of baseless, repetitive claims.'" App. A, p. 11a (citing *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972)). The court noted that PRE had not alleged that the Studios' copyright lawsuit involved misrepresentations or baseless claims. Rather, the court stated:

PRE argues that the copyright infringement lawsuit is a sham because [the Studios] did not honestly believe that the infringement claim was meritorious. According to PRE, [the Studios'] subjective intent in bringing the suit was a question of fact precluding entry of summary judgment.

App. A, p. 11a.

The court then stated that it has adopted a strictly objective threshold test: in order to be a sham, a lawsuit must be *baseless* as a matter of law (specifically rejecting the holding in *In re Burlington Northern, Inc.*, 783 F.2d 518, 529 (5th Cir. 1987), *cert. denied*, 484 U.S. 1007 (1988)). *Id.* Accordingly, the Ninth Circuit concluded that the district court did not err in holding that the Studios' copyright infringement lawsuit was not a sham because it found that the suit "was brought with probable cause and presented issues that were difficult to resolve," i.e., that the suit was not baseless. App. A, p. 15a.

The Court of Appeals then offered the following synopsis of its method of reviewing *Noerr-Pennington* sham exception allegations:

[A]n antitrust plaintiff must make a two-part showing to support a finding of sham: (1) that the suit is baseless—a legal question. . . and (2) that the suit was brought as part of an anticompetitive plan external to the underlying litigation—a question of fact. . . . [Therefore,] a suit brought with probable cause does not fall within the sham exception to the *Noerr-Pennington* doctrine.

App. A, pp. 15a-16a (emphasis added) (citations omitted).

Having found that the district court did not err in concluding that the Studios' copyright lawsuit was not baseless (and therefore not within the sham exception to *Noerr-Pennington*), the Court of Appeals summarily disposed of PRE's contention that the district court erroneously granted summary judgment to the Studios before it ruled on PRE's request to be permitted to take full discovery. The court acknowledged that "summary judgment is rarely granted in antitrust cases before discovery is completed," but concluded that intent is relevant in sham cases only after the antitrust plaintiff has shown that the lawsuit in question was baseless as a matter of law. App. A, p. 17a. Because PRE did not show that the Studios' copyright litigation was baseless as a matter of law, the Ninth Circuit determined that the district court did not err when it concluded that additional discovery could not assist PRE in its attempt to demonstrate that the copyright lawsuit was a sham. App. A, pp. 17a-18a.

REASONS FOR GRANTING THE PETITION

SUMMARY OF ARGUMENT

The Ninth Circuit has adopted a two-prong standard for determining sham litigation that (1) is sharply at odds with the standards employed by every other circuit, (2) misconstrues this Court's teachings on the *Noerr-Pennington* doctrine and its sham exception, and (3) is at war with the very basis and purpose of the sham exception. By holding that *no* evidence as to the disingenuousness and insubstantiality of a litigant's desire for the judicial relief

ostensibly sought in a litigation is relevant to a determination of whether the litigation is an anticompetitive sham when the litigation in question is not deemed "baseless" as a matter of law, the Ninth Circuit has established a standard that permits, indeed authorizes, the intentional misuse of the judicial system for anticompetitive ends. Review of the Ninth Circuit's decision is necessary to (1) correct the Ninth Circuit's clear error; and (2) provide uniformity among the circuits in the application of this important doctrine.

I. The Ninth Circuit Has Ignored This Court's Teaching That A Genuine Intent To Obtain Judicial Relief Is The Basis For Determining Whether The Litigation Is A Sham.

The court has provided ample guidance as to the limits of the *Noerr-Pennington* doctrine in the context of sham litigation, guidance the District Court and Ninth Circuit failed to follow in this case. In the thirty years following this Court's decision in *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), this Court has carefully distinguished between two forms of intent in determining whether concerted governmental petitioning, otherwise immune from liability under the antitrust laws, is in fact a sham, and therefore not entitled to immunity.² These careful distinctions lie at the heart of this Court's *Noerr-Pennington* jurisprudence.

² This immunity from the antitrust laws is conferred through the *Noerr-Pennington* doctrine, a doctrine derived from this Court's decisions in *Noerr* and *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965). The doctrine provides that "the federal antitrust laws . . . do not regulate the conduct of private individuals in seeking anticompetitive action from the government . . . 'Noerr shields from the Sherman Act a concerted effort to influence public officials regardless of intent or purpose.'" *Columbia v. Omni Outdoor Advertising, Inc.*, 111 S.Ct. 1344, 1354 (1991) (quoting *Pennington*, 381 U.S. at 670). The *Noerr-Pennington* doctrine was first explicitly extended to include concerted efforts to litigate in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972).

While a sham exception to the *Noerr-Pennington* doctrine was im-

The Court has distinguished between the intent to cause competitive harm *directly*, by imposing the burdens that follow from invoking a governmental process; and the intent to cause harm *indirectly*, through the tangible results (e.g., legislation, rule changes, or court judgments) of the governmental process(es) invoked. *Noerr* and *Pennington* hold that an intent to solicit governmental action with the principal purpose of having that action harm a competitor - having a "bad intent" in the latter sense - is the very essence of the conduct to be protected from application of the antitrust laws.³ "Without a doubt, the intention to harm a competitor is *not* sufficient to make litigation . . . a sham. That anticompetitive motive is the very matter protected under *Noerr-Pennington*." *Winterland Concessions Co. v. Trela*, 735 F.2d 257, 263 (7th Cir. 1984) (quoting *Gainesville v. Florida Power & Light Co.*, 488 F. Supp. 1258, 1265-66 (S.D. Fla. 1980)) (emphasis in latter).⁴

On the other hand, *Pennington*, *California Motor Transport*, and numerous more recent cases recognize that conduct that does not involve a genuine desire for governmental results, but instead seeks to use (and thereby abuse) governmental processes as the means of working competitive injury directly, does not enjoy *Noerr-Pennington* antitrust immunity. It is only petitioning activity motivated by an evil intent in this sense that is proscribed

explicitly recognized in *Noerr*, 365 U.S. at 144, not until *California Motor Transport*, 404 U.S. at 516, did the Court first find conduct which it deemed to be sham.

³ See *Noerr*, 365 U.S. at 138-40 ("The right of the people to [petition the] . . . government . . . cannot properly be made to depend upon their intent in doing so. It is neither unusual nor illegal for people to seek action on laws in the hope that they may bring about an advantage to themselves and a disadvantage to their competitors."); *Pennington*, 381 U.S. at 670 ("Noerr shields from the Sherman Act a concerted effort to influence public officials regardless of intent or purpose.").

⁴ See also *MCI Communications Corp. v. Am. Tel. & Tel. Co.*, 708 F.2d 1081, 1156 (7th Cir.), cert. denied, 464 U.S. 891 (1983), which also quotes from *Gainesville*, citing it as "[o]ne of the more cogent definitions of sham litigation . . .," *id.*; *Westmac, Inc. v. Smith*, 797 F.2d 313, 317 (6th Cir. 1986), cert. denied, 479 U.S. 1035 (1987).

as sham conduct. "A 'sham' situation involves a defendant whose activities are 'not genuinely aimed at procuring favorable government action' at all. . . ." *Omni Outdoor*, 111 S.Ct. at 1354 (quoting *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 n.4 (1988)).⁵

These distinctions, and the fact that only an intent to cause harm directly is actionable conduct, flow logically from the core purpose of the *Noerr-Pennington* doctrine. As the Court wrote in *California Motor Transport*, the holdings in *Noerr* and *Pennington* derived both from a determination that (1) the Sherman Act was intended to regulate business, rather than political, activity; and (2) the Congress would not lightly circumscribe the First Amendment right to petition government without explicitly stating its intention to do so. See *Noerr*, 365 U.S. at 137-38; *Pennington*, 381 U.S. at 669-71; *California Motor Transport*, 404 U.S. at 510. A party wishing to inflict competitive harm through the genuinely-desired outcome of a governmental process does not itself inflict competitive harm; rather, the state does, and the antitrust laws have only a limited role to play in proscribing anticompetitive measures fashioned by the government. See, e.g., *Parker v. Brown*, 317 U.S. 341 (1943). Moreover, "[t]he first amendment, as expressed in the *Noerr-Pennington* doctrine, protects even strongly expressed anticompetitive sentiments." *Westmac*, 797 F.2d at 313.

On the other hand, parties that seek directly to harm their competitor through use of the governmental process itself, rather than as a result of a governmental outcome,

⁵ See also *California Motor Transport*, 404 U.S. at 511-12; *In re Burlington Northern, Inc.*, 822 F.2d 518, 527 (5th Cir. 1987), cert. denied, 484 U.S. 1007 (1988):

If the . . . intent [of the defendant in the antitrust action] was not to influence the government and obtain relief, but rather to harm a competitor through the mere invocation and maintenance of the process, he is not entitled to protection because he is not exercising the right of petition that formed the basis for the decision in *Noerr*.

trigger none of the factors underlying *Noerr-Pennington* immunity. Under these circumstances, the petitioning parties have not sought genuinely to engage the machinery of government, which is the freedom protected by the First Amendment. Moreover, the anticompetitive result flows directly from the harm that the parties create through the abuse of governmental machinery, rather than indirectly from the governmental outcome. Hence, there is no reason for the antitrust laws to defer to a sovereign act of the government, because there is no governmental "act" to which to defer.

Relying on these distinctions, the Court has steadily assembled a body of law that recognizes the primacy of intent in a determination of sham. In *California Motor Transport*, the Court qualified its statement in *Pennington* that *Noerr* shields behavior regardless of intent or purpose, noting:

The nature of the views pressed does not, of course, determine whether First Amendment rights may be invoked; but they may bear upon a purpose to deprive the competitors of meaningful access to the agencies and courts. As stated in the opinion concurring in the judgment, such a purpose or intent, if shown, would be "to discourage and ultimately to prevent the respondents from invoking" the processes of the administrative agencies and courts and thus fall within the exception to *Noerr*.

California Motor Transport, 404 U.S. at 512 (quoting *id.* at 518 (Stewart and Brennan, JJ., concurring)).⁶

⁶ In full, the portion of the concurrence quoted with approval by the Court states:

Under these allegations [as set forth in the complaint], . . . the respondents are entitled to prove that the real intent of the conspirators was not to invoke the processes of the administrative agencies and courts, but to discourage and ultimately to prevent the respondents from invoking these

In *Indian Head*, the Court further highlighted the central role of intent in sham determination by criticizing a Ninth Circuit decision holding "that the sham exception covers the activity of a defendant who 'genuinely seeks to achieve his governmental result, but does so through improper means.'" *Indian Head*, 486 U.S. at 508 n.10 (1988) (quoting *Sessions Tank Liners, Inc. v. Joor Mfg. Inc.*, 827 F.2d 458, 465 n.5 (9th Cir. 1987), vacated, 487 U.S. 1213 (1988)) (emphasis in latter). "Such a use of the word 'sham' distorts its meaning and bears little relation to the sham exception *Noerr* described to cover activity that was not genuinely intended to influence governmental action." *Indian Head*, 486 U.S. at 508 n.10.⁷

And in its latest case on this subject, *Omni Outdoor*, the Court once again highlighted the use/abuse dichotomy as the core inquiry in a sham determination.

The "sham" exception to *Noerr* encompasses situations in which persons use the governmental process - as opposed to the outcome of that process - as an anticompetitive weapon. A classic example is the filing of frivolous objections to the

processes. Such an intent would make the conspiracy "an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified."

Id. (quoting *Noerr*, 365 U.S. at 144) (emphasis in former).

⁷ Commentators have embraced *Indian Head* as offering "salutary lesson[s]" on the scope and meaning of the sham exception. Stephen Calkins, *Developments in Antitrust and the First Amendment: the Disaggregation of Noerr*, 57 Antitrust L.J. 327, 340 (1988).

[*Indian Head*] offered hope for resolution of some of the inconsistencies that have plagued the [*Noerr-Pennington*] doctrine. It did this by distinguishing sharply between harm caused directly by petitioning activity (for which petitioners may be liable), and harm caused by requested government action (for which petitioners may not), and by recasting the "sham exception" as being narrower and less important than some courts had held.

Id. at 327-28.

license application of a competitor, with no expectation of achieving denial of the license but simply in order to impose expense and delay.

• • • •

[T]he purpose of delaying a competitor's entry into the market does not render lobbying activity a "sham," unless . . . the delay is sought to be achieved only by the lobbying process itself, and not by the governmental action that the lobbying seeks.

Omni Outdoor, 111 S.Ct. at 1354 (emphasis in original) (citation omitted).

A. The Ninth Circuit Misconstrued *Bill Johnson's Restaurants, Inc. v. N.L.R.B.* In Support Of Its Holding.

The Ninth Circuit made only passing reference to *California Motor Transport*, and completely ignored *Indian Head* and *Omni Outdoor*. Instead, it relied solely on *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731 (1983) to support its contention that "the Supreme Court's pronouncements on the sham exception support our conclusion." App. A., p. 16a. The Ninth Circuit gravely misconstrued this Court's teaching in *Bill Johnson's*, extracting a rule that is irreconcilable with the proper application to antitrust of the *Noerr-Pennington* doctrine and its sham exception.

In *Bill Johnson's*, this Court considered under what circumstances a lawsuit filed by an employer in state court against a striking employee could be deemed an "unfair labor practice" within the meaning of Sections 8(a)(1) and (4) of the National Labor Relations Act ("NLRA"), 29 U.S.C. §§ 158(a)(1) and (4), and thus be proscribed by the National Labor Relations Board ("NLRB"). The Court balanced the need under the labor laws to ensure that em-

ployees can exercise their rights under the NLRA free from employer harassment, with the employer's First Amendment right of access to the courts and the "compelling interest [of the states] in the maintenance of domestic peace" through providing a civil remedy to protect employers from tortious conduct occurring during labor disputes. *Bill Johnson's*, 461 U.S. at 740-43. The Court held that the NLRB could enjoin only those suits that were baseless and that were intended by the litigant to retaliate against an employee for the exercise of his NLRA-protected rights. *Id.* at 744.

A measure of the Ninth Circuit's error and isolation on this point is that since 1983, *Bill Johnson's* has never been cited by any court in support of the proposition that a finding of sham in the antitrust context requires a threshold finding of baselessness as a matter of law.⁸ Simply put, *Bill Johnson's* cannot be imported wholesale into an antitrust setting to define and sharply limit the ambit of the sham exception, as the Ninth Circuit does uncritically.⁹ The fact that the case represents an interpretation of the labor laws, and not (at least directly) a constitutional interpretation is crucial to an understanding of the limits of the Court's analysis.¹⁰ The labor laws are predisposed to

⁸ Cf. *South Dakota v. Kansas City Southern Indus., Inc.*, 880 F.2d 40, 54 (8th Cir. 1989), cert. denied, 493 U.S. 1023 (1990) (*Noerr-Pennington* and sham concepts used in the interpretation of state law of tortious interference with contractual relations; *Bill Johnson's* cited in support of the proposition that successful litigation precludes a finding of sham based on lack of reasonable basis for the lawsuit).

⁹ See *Burlington Northern*, 822 F.2d at 528-29 n.7. Antitrust commentators have noted the narrow utility of the *Bill Johnson's* holding to antitrust law. See, e.g., Calkins, *supra* n.7 at 363-65; James D. Hurwitz, *Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr*, 74 Geo. L.J. 65, 103-05 (1985).

¹⁰ Indeed, Justice Brennan, in a concurring opinion, emphasized the limited scope which should properly be accorded the Court's holding:

[These] . . . standards . . . take their content from the basic structures of federal and state - and of administrative and judicial - authority over labor disputes, and they should not

halt all employer lawsuits motivated by a vindictive or retaliatory spirit in order to ensure maximum scope for the exercise of employee rights guaranteed by the NLRA through access to the NLRB. *Noerr* and *Pennington*, on the other hand, stand for the opposite proposition. They state that an anticompetitive motive - the desire to injure one's competitors by obtaining a governmental result - is of no importance in a sham determination. Standing alone, a desire to injure competitors is not sufficiently threatening to the policy goals of the antitrust laws to warrant proscription. In the marketplace, litigation that genuinely seeks even an admittedly competition-reducing, governmentally sanctioned result is but one additional arrow in the competitor's quiver.

Arrayed against the predisposition of the labor laws are both the First Amendment interest of employers in having free access to courts, and powerful considerations of federalism, embodied in state tort laws to which employers have historically turned during labor disputes.¹¹ Balancing

be read in an artificial way that ignores their provenance.

Bill Johnson's, 461 U.S. at 750 (Brennan, J., concurring). See also *Burlington Northern*, 822 F.2d at 528-29 n.7:

The [*Bill Johnson's*] Court did not . . . state a constitutional rule that all lawsuits with a reasonable basis are immune from the application of otherwise valid regulation. Rather, it construed congressional intent behind the NLRA in light of the constitutional right to petition and earlier Supreme Court cases that held that the NLRA does not preempt states from providing a civil remedy for tortious conduct occurring during a labor dispute. . . . Given the constitutional implications and the lack of preemption, the Court concluded that the NLRA does not empower the Board to enjoin lawsuits solely on the basis of retaliatory motive.

(citation omitted).

¹¹ The importance of these federalism considerations to the result reached in *Bill Johnson's* cannot be overstated. See *Sure-Tan, Inc. v. NLRB*, 467 U.S. 883, 897-98 (1984), in which the Court cited a lack of federalism concerns arising from the activity deemed to be an "unfair labor practice" in support of its decision not to apply the rationale of

these competing interests, the Court determined that, at least as a threshold matter, the policies embodied in the labor laws must defer to first amendment and federalism concerns in all but the narrowest of circumstances: those where an employer's state lawsuit lacks a genuine basis in fact or law. As the *Burlington Northern* court noted, the NLRA had been deemed not to preempt the state tort remedies, so a greater accommodation was necessary to these state interests. *Burlington Northern*, 822 F.2d at 529 n.7.

By comparison, competition policy, as embodied in the antitrust laws, enjoys an almost quasi-constitutional stature, far exceeding that of the NLRA.¹² There is simply no reason why the antitrust laws must defer as completely as the NLRA. First, the antitrust laws are concerned with distinguishing public from private harm when that harm is achieved through use of governmental processes. They do not address when retaliatory litigation, otherwise proscribed, must be permitted to flourish because of competing and overriding concerns. The First Amendment does not protect those who invoke a governmental process without a legitimate purpose to petition their government, but simply to bludgeon a competitor. In these situations, "there are no 'grievances' to redress."¹³ Moreover, in the antitrust context, the Court is unburdened by federalism, and seeks only to protect those lawsuits in which the governmental machinery is genuinely engaged in order to obtain a favorable result, regardless of the competitive consequences of that result.

Bill Johnson's. See also Calkins, *supra* n.7 at 364 and n.187; Hurwitz, *supra* n.9 at 103 and n.172.

¹² See, e.g., *National Collegiate Athletic Ass'n v. Board of Regents*, 468 U.S. 85, 104 n.27 (1984); *United States v. Topco Assoc., Inc.*, 405 U.S. 596, 610 (1972); *Appalachian Coals, Inc. v. United States*, 288 U.S. 344, 359-60 (1933). See also Hurwitz, *supra* n.9 at 119-121.

¹³ Daniel R. Fischel, *Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine*, 45 U. Chi. L. Rev. 80, 101 (1977).

Finally, as the *Burlington Northern* court pointed out, *Bill Johnson's* did not "consider the situation in which the litigant, in addition to having a motive generally proscribed by the regulation at issue, also has no significant desire to obtain the relief prayed for." *Burlington Northern*, 822 F.2d at 528-29 n.7. These considerations have been dealt with extensively in antitrust sham jurisprudence (most recently in *Omni Outdoor*). It would be illogical in the extreme to read *Bill Johnson's* to limit a well-developed body of pertinent antitrust law, simply because the Court stated that "[c]onsiderations analogous" to those in the antitrust context guided the Court in its interpretation of the NLRA. *Bill Johnson's*, 461 U.S. at 744.

No court of appeals has gone as far as the Ninth Circuit in rejecting this Court's teachings on the primacy of intent (properly considered) in determining sham. By creating a two-pronged standard that requires a finding of baselessness before the trier of fact may consider *any* evidence of a litigant's motivation, the Ninth Circuit has immunized from potential antitrust liability all sorts of conduct in the courts that is entirely undeserving of either First Amendment protection or exemption from the antitrust laws. Immune from challenge under the Ninth Circuit standard, for example, is a lawsuit which presents any colorable claim, no matter how that lawsuit is pursued. So long as the complaint presents a genuine claim, this standard opens wide the door to those who wish to employ sharp litigation tactics in pursuit of admittedly anticompetitive ends, not to secure a result but simply to burden, harass and perhaps even destroy a competitor.

Indeed, the Ninth Circuit standard equates, for purposes of the sham exception, successful prosecution of a meritorious lawsuit with prosecution of a single lawsuit brought with the most tenuous probable cause only to harass or intimidate a competitor, and regardless of outcome. App. A, pp. 13a-14a. For the Ninth Circuit, a successful lawsuit irrebuttably precludes a finding of sham; so, too, does an

unsuccessful lawsuit which is just short of being subject to sanction under Rule 11 of the Federal Rules of Civil Procedure. Such a standard makes no sense.

It is apparent that the Ninth Circuit has confused (or completely ignored) the distinctions this Court has drawn between intent to do competitive harm *directly* and intent to do harm *indirectly*, through a genuinely motivated engagement of governmental machinery. The court's confusion (or the failure to recognize the distinction) infects the court's ability to deal properly with the core question of respondents' intent and motivation in the underlying copyright infringement litigation. In ruling on petitioners' contention that the district court failed to resolve its requests for discovery before ruling on the motion for summary judgment, the Ninth Circuit stated that the district court concluded that "even if the Movie Studios had an anticompetitive intent in bringing the action, they did not lose their *Noerr-Pennington* immunity." App. A, pp. 17a-18a. Put this way, of course, petitioner's arguments are easily dismissed, because it appears as though petitioners are seeking to secure evidence that simply showed that respondents were animated by a desire to inflict harm on their competitors through litigation. Rather, petitioners sought - and were denied at every turn - evidence that would have revealed the disingenuousness of respondents' motivation in *initiating and prosecuting* their unsuccessful action against petitioner, among other evidence of the Studios' conspiracy to restrain competition.¹⁴

II. The Ninth Circuit's Standard For Analyzing Sham Allegations Is Inconsistent With The Standards Of Every Other Circuits.

In the nineteen years since this Court decided *California Motor Transport*, lower courts have wrestled with the question of the proper standard by which to distinguish

¹⁴ The same error pervades Judge Jolly's reading of *Bill Johnson's* in his concurrence to *Burlington Northern*, 822 F.2d at 535.

genuine petitioning activity from sham.¹⁵ Much of the difficulty surrounding the proper application of the sham exception springs from confusion regarding the type of "intent" that is relevant in *Noerr-Pennington* analysis (see *supra*), and the way in which questions of "intent" (properly defined) are to be considered in determining sham.¹⁶

The standards of the circuit courts on these issues vary widely. They are arrayed along a spectrum according to the role which motive and intent play in determining sham. The Ninth Circuit's standard stands at one extreme end of this spectrum. It requires a court to completely reject any evidence of intent, and limit its analysis solely to the objective merits of the underlying suit. The decisions of the Fifth¹⁷, Sixth¹⁸, and Seventh¹⁹ Circuits stand at the

¹⁵ See, e.g., *Westmac*, 797 F.2d at 320 (Merritt, J., dissenting) ("Since [*Noerr*], . . ., the federal courts have struggled to give specific meaning to the *Noerr-Pennington* doctrine's sham exception. We need a definition of the sham exception that is clear and analytically sound as well as functional.") (emphasis supplied); *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358, 1371 (5th Cir. 1983) ("The Supreme Court has never defined with precision the standard for determining when litigation is a sham."); *MCI Communications*, 708 F.2d at 1155 ("The *Noerr* and *Pennington* cases themselves provide little definition of what a 'sham' may be other than to indicate immunity for 'genuine efforts' and 'good faith' attempts to influence governmental bodies."); Calkins, *supra* n.7 at 327 ("A legal doctrine conceived in ambiguity seldom achieves clarity with the passage of time. Such had been the experience with the *Noerr-Pennington* doctrine. . .") (footnote omitted); Michael W. Bien, *Litigation as an Antitrust Violation: Conflict Between the First Amendment and the Sherman Act*, 16 U.S.F. L. Rev. 41, 68 (1981); Fischel, *supra* n.13, at 104.

¹⁶ See, e.g., Hurwitz, *supra* n.9 at 94 ("The legal elements of a sham, however, are themselves unclear. Courts, and especially the Supreme Court, have failed to distinguish between what is required, what is illustrative, and what is merely probative.") (footnote omitted).

¹⁷ See, e.g., *Burlington Northern*; *Coastal States*.

¹⁸ See, e.g., *Westmac*.

¹⁹ See, e.g., *Premier Electrical Constr. Co. v. Nat'l Electrical Contractors Ass'n*, 814 F.2d 358 (7th Cir. 1987); *Winterland*; *MCI Communications*; *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983); *G. Heileman Brewing*

opposite extreme. The Fifth, Sixth and Seventh Circuits have thoroughly considered these issues, and have crafted rules which balance various objective criteria, in some cases raising rebuttable presumptions based upon particularly strong criteria, in all cases endeavoring to gauge motivation and intent. In no event do these courts foreclose inquiry in the manner the Ninth Circuit has. Scattered somewhere between these polar opposites are the rules crafted by the Second²⁰, Third²¹, Fourth²², Eighth²³, Tenth²⁴,

Co., Inc. v. Anheuser-Busch Inc., 676 F. Supp. 1436, 1475-77 (E.D. Wis. 1987), *aff'd*, 873 F.2d 985 (7th Cir. 1989).

²⁰ See, e.g., *Juster Assoc. v. Rutland*, 901 F.2d 266, 271 (2d Cir. 1990) (*Noerr* immunity available only to colorable claims which are within the jurisdiction of the tribunal. "Where administrative or judicial processes are invoked for the purpose of causing collateral effects such as delaying entry by competitors . . ., the *Noerr-Pennington* immunity is not available."); *Littton Systems, Inc. v. Am. Tel. & Tel. Co.*, 700 F.2d 785, 810-12 (2d Cir. 1983), *cert. denied*, 464 U.S. 1073 (1984):

Professor Areeda's view of the heart of the sham exception - invoking the process of administrative or adjudicatory decisionmaking for the injury that the process alone will work upon competitors - possesses the virtue of accommodating the Supreme Court's concern in *California Motor Transport* that these processes not be abused with impunity behind claims of *Noerr-Pennington* immunity.

Id. at 810. (The court cited and evaluated various indicia "of whether a defendant could have reasonably expected its position to prevail, and therefore whether the invocation of process was actually an attempt to influence a decision rather than an attempt to interpose delay." *Id.* One of the indicia was AT&T's half-hearted participation in an Advisory Committee devising standards for equipment interface with the AT&T network, with AT&T doing "what it could to delay and obfuscate the efforts undertaken by the FCC and other interested parties to develop certification standards." *Id.* at 811.)

²¹ See, e.g., *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984).

²² See, e.g., *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556 (4th Cir. 1990), *cert. denied*, 111 S.Ct. 1414 (1991); *Hosp. Bldg. Co. v. Trustees of Rex Hosp.*, 791 F.2d 288, 293 (4th Cir. 1986) (Rejecting an objection to certain jury instructions regarding sham and intent, which "explain[ed] that actions taken 'without a genuine intent to influence the decision of the agency or the court' are a sham," the

Eleventh²⁵, and District of Columbia²⁶ Circuits, with all but the Fourth and possibly the Tenth clustered close to the pole defined by the Fifth, Sixth and Seventh Circuits.

court stated:

Read in the context of the entire charge, the phrase "genuine intent" meant a sincere intent without pretense. Justice Stewart expressed the same concept by saying that antitrust complainants "are entitled to prove that the real intent of the conspirators was not to invoke the processes of the administrative agencies and courts . . ."

Id. (quoting *California Motor Transport*, 404 U.S. at 518 (Stewart, J., concurring) (emphasis in latter)).

²³ Perhaps no circuit court's decisions better illustrate the enormous confusion generated by the sham doctrine than do those of the Eighth Circuit. Compare, e.g., *Kansas City Southern*, 880 F.2d at 50-54; *Razorback Ready Mix Concrete Co., Inc. v. Weaver*, 761 F.2d 484, 487 (8th Cir. 1985) (While stating that "the key to the 'sham exception' is an improper interference with governmental processes," the court held that "the institution of a single lawsuit and a related appeal . . . does not give rise to a cause of action under the antitrust laws absent allegations that the lawsuit involves serious misconduct similar to the access-barring abuses described in *California Motor*"); *First Am. Title Co. of South Dakota v. South Dakota Land Title Ass'n*, 714 F.2d 1439, 1447-48 (8th Cir. 1983), *cert. denied*, 464 U.S. 1042 (1984) (Court stressed genuineness of disputes on the part of defendants.); *Mark Aero, Inc. v. Trans World Airlines, Inc.*, 580 F.2d 288, 293-97 (8th Cir. 1978) (After reviewing *Noerr*, *Pennington*, and *California Motor Transport*, the Court stated the law of sham as follows:

The fundamental question presented in each case involving the "sham" exception . . . is the question of intent. . . . [I]n the adjudicative setting the question can become more complex. As always in deciding questions of intent, the court considers all of the surrounding circumstances and assigns to each circumstance an appropriate weight, dependent upon the function and significance of each. . . . The distillation of all of the applicable factors in each case governs the decision as to true intent, whether it is to directly injure competitors rather than to influence governmental action.

Id. at 297.)

²⁴ See, e.g., *Hydro-Tech Corp. v. Sunstrand Corp.*, 673 F.2d 1171, 1177 (10th Cir. 1982) ("A sham action is one which tends to be abusive

At bottom, the Ninth Circuit standard states that the genuineness of a litigant's motives in seeking its anticompetitive objectives through a judgment on the merits becomes relevant only after a threshold determination by the court that, as a matter of law, the litigation is baseless. App. A, p. 16a.²⁷ The Ninth Circuit seeks to short-cut the inquiry mandated by this Court by erecting, as an irrebuttable presumption against a finding of sham, one criterion - baselessness - that screens out only the most blatant abuses of the judicial process. While courts²⁸ and commentators²⁹ recognize that inquiries into issues of sub-

of the judicial processes and, therefore, is something more than an action instituted without probable cause.") (emphasis in original).

²⁵ See, e.g., *St. Joseph's Hosp., Inc. v. Hosp. Corp. of Am.*, 795 F.2d 948 (11th Cir. 1986); *Collins & Aikman Corp. v. Stratton Indus., Inc.*, 728 F. Supp. 1570, 1580 (N.D. Ga. 1989) ("The requisite motive for establishing a sham exception is the intent to harm one's competitor not by the result of the litigation but 'by the simple fact of the institution of the litigation.' . . . Thus, the touchstone of the sham exception is whether 'the desire for relief was a significant factor underlying the actual bringing and prosecution of the suit.' ") (quoting respectively *MCI Communications*, 708 F.2d at 1156, and *Burlington Northern*, 822 F.2d at 528).

²⁶ See, e.g., *Fed. Prescription Service, Inc. v. Am. Pharmaceutical Ass'n*, 663 F.2d 253 (D.C. Cir. 1981), cert. denied, 455 U.S. 928 (1982).

²⁷ Indeed, the issue is framed even more sharply in this case. Here, petitioners were completely foreclosed from any discovery relating to respondents' motives in pursuing an unsuccessful copyright infringement action.

²⁸ See, e.g., *Burlington Northern*, 822 F.2d at 528:

To be sure, "[d]etermining what efforts are not bona fide petitions to the government . . . is a difficult task." . . . But we cannot say that important cases will not exist in which the evidence establishes that, despite having a meritorious claim, a party was motivated not by a desire to obtain relief but to harass and interfere with the activities of a competitor through the process itself.

(quoting *Greenwood Utilities Comm'n v. Mississippi Power Co.*, 751 F.2d 1484, 1498 (5th Cir. 1985)); *Grip-Pak*, 694 F.2d at 472.

²⁹ See, e.g., Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 203.1c at pp. 23-24 (Supp. 1991); Hurwitz, *supra* n.9 at 99.

jective intent and motivation may not be easy, these questions are no thornier than other intent-based inquiries in antitrust. See, e.g., *Grip-Pak*, 694 F.2d at 472. Other courts have grappled with these issues and devised practicable standards which, unlike that devised by the Ninth Circuit, are consistent with this Court's teachings. See, e.g., *Burlington Northern*, 822 F.2d at 534; *Westmac*, 797 F.2d at 318. Simply put, the Ninth Circuit has erred by short-cutting the inquiry which this Court mandates.

The Fifth Circuit, in *Burlington Northern* and *Coastal States*, stands in sharpest contrast to the Ninth Circuit standard. The polestar of the Fifth Circuit sham inquiry is the genuineness of the litigant's motivation in seeking a result from a governmental process. The inquiry eschews formalistic linedrawing in its search for indicia of genuineness, relying instead on a variety of factors (including success or failure in the underlying litigation) as guideposts.

Coastal States recognized that the key to extending *Noerr-Pennington* protection is whether the antitrust defendant genuinely was attempting to influence governmental decisionmaking. If the defendant's intent was not to influence the government and obtain relief, but rather to harm a competitor through the mere invocation and maintenance of the process, he is not entitled to protection because he is not exercising the right of petition that formed the basis for the decision in *Noerr*. . . .

[*Coastal States*] focuses attention on the factors motivating the *initiation* and *prosecution* of the suit. Thus, it is not dispositive that the ultimate relief will be beneficial to the petitioner and will serve his purposes. It must be shown that the desire for relief was a significant factor underlying the actual bringing and prosecution of the suit. This requires an examination of the litigant's intent.

Burlington Northern, 822 F.2d at 527-28 (emphasis in original) (citations omitted). Success on the merits, one objective measure of the relative substantiality of a claim, is thus accorded weight (as a "strong inference that *Noerr-Pennington* applies," *id.* at 528), but it does not foreclose inquiry into the litigant's motivation:

The determinative inquiry is not whether the suit was won or lost, but whether it was significantly motivated by a genuine desire for judicial relief. . . [R]eliance on the success of the earlier claim cannot substitute for proper consideration of any evidence the plaintiff might provide of the petitioner's motivation.

*Id.*³⁰

³⁰ See also *Coastal States*, 694 F.2d at 1372:

A litigant should enjoy petitioning immunity from the antitrust laws so long as a genuine desire for judicial relief is a significant motivating factor underlying the suit. This criterion takes account of the mixed motives that usually actuate human conduct, yet requires that good faith in seeking the protection of the courts be a substantial factor.

(footnote omitted).

Commentators, including Professor Areeda, agree that while success on the merits in the underlying litigation represents strong evidence against a finding of sham, the inquiry properly extends beyond just this one factor. Areeda & Hovenkamp, *supra* n.29, ¶ 203.1d at p. 30. See also Calkins, *supra* n.7 at 361-62 ("Even some of those who believe that success is an important consideration would let it erect only a strong presumption, and this seems the better view . . .") (footnote omitted); Hurwitz, *supra* n.9 at 108 ("It is appropriate to draw a strong, although rebuttable, presumption that petitioning efforts are not a sham if they succeed on the merits . . ."); Earl W. Kintner & Joseph P. Bauer, *Antitrust Exemptions for Private Requests for Governmental Action: A Critical Analysis of the Noerr-Pennington Doctrine*, 17 U.C. Davis L. Rev. 549, 576 (1984) ("[E]ven a claim on which the defendant prevailed may be the basis for loss of petitioning immunity through application of the sham exception.") (footnote omitted); Bien, *supra* n.15, at pp. 69, 93; Fischel, *supra*, n.13 at 110-11 n.160.

Because the Ninth Circuit would create an irrebuttable presumption against a finding of sham both with respect to successful *and* baseless litigation App. A, pp. 13a-14a and n.7), the same strong arguments against formalistic line drawing with regard to success on the merits should apply to characterizations of the strength or weakness of the lawsuit.

The Sixth Circuit, in *Westmac*, was even more explicit in affording the objective meritoriousness of the claims pursued in the underlying litigation an important, but not determinative, role. The objective merits of the underlying litigation raise only a "rebuttable presumption that . . . [the litigation] is a serious attempt to obtain a judgment on the merits instead of a mere sham or harassment." *Westmac*, 797 F.2d at 318.³¹ The *Westmac* approach does not "immunize" any party's conduct, but rather creates "merely . . . an evidentiary presumption to facilitate the applicability of the sham exception." *Id.* at 320 n.12.

Finally, the Seventh Circuit has offered a more sophisticated way of testing a litigant's subjective intent by examining the economic motivations of a plaintiff, reasoning that a litigation that is not cost-justified by its expected judgment must be motivated by other, less defensible, rationales. See, e.g., *Premier Electrical*, 814 F.2d at 372; *Grip-Pak*, 694 F.2d at 472. In testing such a formulation, the Seventh Circuit has tacitly acknowledged this Court's teachings in the context of conspiracy (another area of the law where courts must grapple with difficult evidentiary questions of subjective intent and motivation). Objective criteria, such as what economic factors suggest about a party's motivations, are powerful objective indicia but are

³¹ Judge Merritt, dissenting in *Westmac*, would go even further, arguing "that the existence of an 'issue of substance' or 'colorable claim' should not be held to create a constitutional presumption - rebuttable or irrebuttable - of no judicial abuse of process, and hence no sham." *Westmac*, 797 F.2d at 320 (Merritt, J., dissenting).

by no means conclusive evidence. Motivation properly remains a subjective inquiry.³²

Although the other circuits have not defined the bounds of their inquiries as precisely as have the Fifth, Sixth and Seventh, they nonetheless look to various forms of objective evidence in determining whether litigation is an unprotected sham.³³ None have adopted the Ninth Circuit's approach: closing the door on consideration of good faith, based solely upon a finding that the case was not baseless as a matter of law. Certainly none do so where the antitrust defendant was *unsuccessful* in the underlying litigation, i.e., where the litigant does not enjoy any "strong presumption" against sham, *Areeda & Hovenkamp*, *supra* n.29, ¶ 203.1d at p. 30, often accorded litigation successful on the merits. *Cf.*, e.g., *Eden Hannon*, 914 F.2d at 565; *Razorback*, 761 F.2d at 487; *Redd Horne*, 749 F.2d at 161.

III. This Case Presents A Particularly Appealing Vehicle For Resolving Confusion Among The Circuits With Respect To An Important Antitrust Doctrine.

The Court should grant this petition because continued confusion regarding the sham exception will allow competitors improperly to invoke the shield of *Noerr-Pennington* and to use to litigation as a predatory weapon

³² See, e.g., *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 587-88 (1986) ("[I]f the factual context renders respondents' claim implausible—if the claim is one that simply makes no economic sense—respondents must come forward with more persuasive evidence to support their claim than would otherwise be necessary." *Id.* at 587 (emphasis supplied)); *Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752, 763-64 (1984).

³³ One commentator has described the approach of most circuits in this fashion:

[M]ost courts tend to merge the two approaches [examination of a petition's objective reasonableness and review of a petitioner's subjective motivations], requiring a finding of bad faith but accepting as highly persuasive the fact that the petition had no reasonable prospects for success.

Hurwitz, *supra* n.9 at 99.

free from the threat of antitrust liability. Courts will continue to be burdened with litigation which, while asserting facially colorable claims, is never intended to be pursued with vigor by complainants. Moreover, because in this case petitioner's well-pled antitrust claims were rejected without providing petitioner the opportunity to conduct *any* discovery on issues of respondents' motivation, this case presents in the starkest possible fashion the question of whether intent, properly defined, matters in determining sham.

The surge in the number of lawsuits involving allegedly *Noerr-Pennington* protected collusive activities reflects the growing awareness of the power of litigation as a competitive weapon. Litigation can impose enormous disproportionate burdens, particularly on small firms, especially when the consequences of losing the litigation are far greater to the defendant than are the potential gains to be won by the plaintiff.³⁴ Costs are imposed both directly, in the form of attorneys' fees (which divert resources away from marketing, sales and promotion efforts), and indirectly, in the form of interference with business operations (including the diversion of management resources, diminishing the defendant's ability to obtain funds in the capital markets, and scaring away potential customers who do not wish to risk becoming embroiled in the litigation).³⁵ Predatory litigants may succeed in either raising their rivals' costs relative to their own, thus imposing an artificial com-

³⁴ See, e.g., Hurwitz, *supra* n.9 at 71. See generally President's Council on Competitiveness, *Agenda for Civil Justice Reform in America* 1-2 (1991).

³⁵ Many commentators note the enormous predatory potential inherent in litigation, and express fears that an unduly cramped reading of the sham exception fails to acknowledge the very real competitive threat posed by litigation which masquerades as *Noerr-Pennington* protected conduct. See, e.g., Robert H. Bork, *The Antitrust Paradox* 347 (1978); Hurwitz, *supra* n.9 at 69-74; Bien, *supra* n.15, at 41-42 nn.1-2; Maxwell M. Blecher & Joel R. Bennett, *Litigation as an Integral Part of a Scheme to Create or Maintain an Illegal Monopoly*, 26 Mercer L. Rev. 479, 480-81 and nn.1-2 (1975).

petitive hurdle, or deterring entry altogether. See *MCI Communications*, 708 F.2d at 1158; *Grip-Pak*, 694 F.2d at 472. Deterring new entry into a noncompetitive market is particularly to be feared, since existing competitors can easily band together to spread the costs of litigation over their larger cost bases, and entrants or potential entrants in the midst of initial marketing efforts or venture capital formation are particularly susceptible to strategically timed predatory litigation.³⁶ This Court can send a strong message that the judicial system cannot become just another weapon to be carelessly employed by cynical competitors.

Strong considerations of justiciability and the proper management of judicial resources favor crafting an effective sham exception. In addition to circumstances in which no justiciable "case or controversy" exists, judicial resources should not be expended in the service of litigants who are disinterested in the result. Lacking suitable motivation, these litigants are unlikely to press their cases diligently and firmly, or to present issues sharply for the court. As one commentator has noted:

[T]he self-interests of the adversaries are relied upon to provide the foundation for sound adjudication. Judicial power is not exercised . . . when courts doubt the existence of sufficient adversary interest to stimulate the parties to a full presentation of the facts and arguments.

13 Charles Alan Wright, Arthur R. Miller, & Edward H. Cooper, *Federal Practice and Procedure* § 3530 at p. 308 (2d ed. 1984). Cf., e.g., *United States v. Johnson*, 319 U.S. 302, 305 (1943) (An "'honest and actual antagonistic assertion of rights'" to be adjudicated was declared to be a "safeguard essential to the integrity of the judicial process . . ." (quoting *Chicago & Grand Trunk Ry. Co. v. Wellman*, 143 U.S. 339, 345 (1892))); *Granfield v. Catholic Univ. of Am.*, 530 F.2d 1035, 1045 (D.C. Cir.), cert. denied, 429 U.S. 821 (1976).

³⁶ See, e.g., *MCI Communications*, 708 F.2d at 1158; Hurwitz, *supra* n.9 at 73-75.

This petition presents an exceedingly narrow issue for review, the resolution of which will have a salutary impact on future consideration of sham litigation cases. No court other than the Ninth Circuit has so clearly stated that evidence of the genuineness of a litigant's motivation in seeking a judicial result is not relevant in determining sham so long as the court has determined, as a matter of law, that the underlying action was not "baseless." Certainly no court has reached this conclusion when the antitrust defendants *lost* the underlying litigation, let alone on summary proceedings.

This case does not require the Court to evaluate or endorse one or another of the various standards which have been used by the other circuits in determining whether litigation is a sham, because no standard was developed by the district court or the Court of Appeals in this case. The Court need not draw lines among various objective criteria, or balance the relative weight to be accorded various different elements of subjective intent. In this case, petitioners were not permitted to develop *any* evidence of respondents' subjective intent, and the Ninth Circuit sanctioned that approach. Petitioners seek only that this Court establish firmly that intent matters in a determination of sham, regardless of the facial meritoriousness of the claims.

Conclusion

This Court has consistently emphasized the primacy of a litigant's subjective intent in determining whether otherwise protected petitioning activity is in fact a mere sham. Notwithstanding this teaching, the circuit courts are in conflict as to how the genuineness of a litigant's motivation figures in the sham analysis. With its decision in this case, the Ninth Circuit has polarized the debate, firmly rejecting the teaching of this Court and clearly contradicting the well-considered approaches of at least three other circuit courts. Petitioners respectfully pray that the Court issue a writ of certiorari to review the judgment of the Court of Appeals for the Ninth Circuit.

December 23, 1991

Respectfully submitted,

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APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos.

90-55583/90-55668

D.C. No.

CV-83-2594-WPG

OPINION

COLUMBIA PICTURES INDUSTRIES, INC.; EMBASSY PICTURES;
PARAMOUNT PICTURES CORPORATION; TWENTIETH CENTURY
FOX FILM CORPORATION; UNIVERSAL CITY STUDIOS, INC.;
WALT DISNEY PRODUCTIONS; WARNER BROS. INC.; CBS,
INC.,

*Plaintiffs-counter-
defendants-Appellees,*

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC.; KENNETH
F. IRWIN,

*Defendants-counter-
claimants-Appellants.*

Appeal from the United States District Court
for the Central District of California
William P. Gray, District Judge, Presiding.

Argued and Submitted
June 5, 1991—Pasadena, California

Filed September 24, 1991

Before: Betty B. Fletcher and William C. Canby, Jr., Cir-
cuit Judges, and Robert J. McNichols,* District Judge.

* The Honorable Robert J. McNichols, United States Senior District
Judge for the Eastern District of Washington, sitting by designation.

Opinion by Judge Canby

SUMMARY

Antitrust

Affirming a district court grant of summary judgment, the court of appeals held that a movie studios' action for copyright infringement was not a "sham", and that, as a result, its bringing of the action against operators of a motel who rented videodiscs of movies subject to copyright for viewing in the hotel rooms was immune from antitrust liability under the doctrine of *Noerr-Pennington*.

Columbia Pictures Industries, Inc. brought a copyright infringement action against appellant Professional Real Estate Investors, Inc., operator of a resort hotel, alleging that PRE violated Columbia's copyrights to certain motion pictures by renting videodiscs of those pictures to its hotel guests for viewing in their hotel rooms. Denying any wrongdoing, PRE filed counterclaims charging that Columbia violated the Sherman Act and state antitrust and unfair competition laws. In support of its antitrust claim, PRE charged that the copyright infringement suit was a sham brought with the intent to monopolize and restrain trade. In addition, PRE alleged that Columbia's concerted refusal to grant licenses to PRE to rent the videos, as well as other unspecified activities, were a pattern of anticompetitive conduct. Postponing further discovery on the antitrust counterclaims, the district court entered summary judgment for PRE on Columbia's copyright action. Subsequently, the district court entered summary judgment for Columbia on PRE's antitrust action.

On the facts of this case, PRE's request for Columbia's licensing amounted to an offer to settle the lawsuit. A decision to accept or reject an offer of settlement is conduct incidental to the prosecution of the suit and not a separate and distinct activity that might form the basis for antitrust liability. Consequently, PRE's success on its

Sherman Act counterclaim depended on its success or failure in showing that the copyright infringement action was actionable under the federal antitrust laws.

Under the *Noerr-Pennington* doctrine, the filing of a lawsuit is immune from the antitrust laws unless the suit is a "sham." Here, Columbia Pictures' copyright infringement action did not involve any of the two recognized types of sham activity. PRE did not allege that the lawsuit involved misrepresentations. Neither did PRE challenge the district court's finding that the infringement action was brought with probable cause. The Ninth Circuit requires both evidence that the lawsuit is baseless and evidence of anticompetitive activity before *Noerr-Pennington* immunity will be ruled out. In addition, the court has held that the prosecution of a single successful lawsuit cannot form the basis for antitrust liability. Because a successful lawsuit involving no fraud upon the court is obviously based on probable cause, it cannot be a sham as a matter of law. The court saw no basis for holding that a suit brought with probable cause in fact and law may be a sham. Such a holding would erode the first amendment right to petition that is the basis for the *Noerr-Pennington* doctrine, by imposing the risk of treble damages for initiating a suit based on a well-founded, but untested, legal theory.

Although summary judgment is rarely granted in antitrust cases before discovery is completed, the court concluded that the district court did not abuse its discretion in denying PRE's assertion that the district court did not resolve the request for discovery. PRE's discovery of Columbia's subjective intent would not raise an issue of material fact sufficient to preclude the entry of summary judgment.

The district court did not abuse its discretion in dismissing PRE's state law counterclaims.

COUNSEL

Jeffrey W. King, Collier, Shannon & Scott, Washington, D.C., for the defendants/counterclaimants/appellants.

Stephen A. Kroft, Rosenfeld, Meyer & Susman, Beverly Hills, California, for the plaintiffs/counterdefendants/appellees.

OPINION

CANBY, Circuit Judge:

Counterclaimants Professional Real Estate Investors and Kenneth Irwin (collectively "PRE") appeal from the entry of an order granting summary judgment in favor of the counterdefendants Columbia Pictures Industries and seven other movie studios (collectively "Columbia Pictures" or "Movie Studios").¹ This appeal involves the propriety of the summary judgment and the applicability of the *Noerr-Pennington* doctrine.

BACKGROUND

This case is before us for the second time. In *Columbia Pictures Industries, Inc. v. Professional Real Estate Investors, Inc.*, 866 F.2d 278 (9th Cir. 1989), we affirmed the district court's grant of summary judgment in favor of PRE on Columbia Pictures' copyright infringement claim. Because Columbia's infringement claim was largely the subject of PRE's counterclaims, we briefly review the facts regarding the original claim and the course of proceedings.

In April 1983, Columbia Pictures brought a copyright infringement action against PRE and Irwin, the operators

¹ The eight movie studios are: Columbia Pictures Industries, Inc.; Embassy Pictures; Paramount Pictures Corporation; Twentieth Century Fox Film Corporation; Universal City Studios, Inc.; Walt Disney Productions; Warner Bros. Inc., and CBS, Inc.

of La Mancha Private Club and Villas, a resort hotel. Columbia Pictures alleged that PRE violated the Movie Studios' copyrights to certain motion pictures by renting videodiscs of those pictures to La Mancha's guests for viewing on videodisc players placed in the hotel rooms.

PRE denied any wrongdoing² and filed counterclaims charging that the Movie Studios had violated the Sherman Act and state antitrust and unfair competition laws. In support of its antitrust claims, PRE charged that the copyright infringement suit was a sham brought with the intent to monopolize and restrain trade. In addition, PRE alleged that the Movie Studios' concerted refusal to grant licenses to PRE to rent the videos, as well as other unspecified activities, constituted a pattern of anticompetitive conduct.

After a series of discovery disputes, the parties filed cross-motions for summary judgment on the copyright infringement claim. At the court's request, the parties postponed further discovery on the antitrust counterclaims pending resolution of the cross-motions. In January 1986, the district court entered summary judgment in favor of PRE and against Columbia Pictures. The court concluded that hotel rooms were not public, and that renting videodiscs for viewing in hotel rooms therefore did not constitute unauthorized public performances in violation of the Movie Studios' copyrights. The court entered its decision as a separate final judgment, and Columbia Pictures appealed.

Three months later, PRE filed a second motion to compel discovery. The district court denied the motion and stayed discovery on the counterclaims pending resolution of Columbia Pictures' appeal of the copyright claim. The

² There was no claim that PRE had breached any copyright laws in originally purchasing the videodiscs. The dispute was only over the subsequent rental for viewing in rented hotel rooms.

court reasoned that the result of the appeal might affect the scope of discovery. Three years later, after numerous changes in the composition of the appellate panel, this court affirmed the summary dismissal of the copyright action. *Columbia Pictures Industries, Inc. v. Professional Real Estate Investors, Inc.*, 866 F.2d 278 (9th Cir. 1989).

Soon thereafter, PRE requested a scheduling conference limiting the time to complete discovery. As a result of the conference, Columbia Pictures agreed to produce certain documents by August 30, 1989. In September, Columbia Pictures delivered some of the requested documents to PRE.

On September 22, 1989, Columbia Pictures moved for summary judgment on PRE's antitrust counterclaims. PRE filed an opposition to the motion, in which it asserted the right to take further discovery. The only evidence offered by PRE in support of its opposition was a declaration by Irwin. PRE did not submit any of the documents that the Movie Studios had produced in discovery.³

The district court granted the Movie Studios' motion for summary judgment. The court held that the copyright infringement action was not a "sham", and that, as a result, the Movie Studios' bringing of that action was immune

³ We grant Columbia Pictures' motion to strike pages 548-550 and 554-557 from PRE's excerpt of record. PRE did not present these materials to the district court in opposition to Columbia Pictures' motion for summary judgment. See *United States v. Elias*, 921 F.2d 870, 874 (9th Cir. 1990). We disagree with PRE's assertion that these materials were before the district court because PRE had referred to the materials in various discovery requests and pleadings. The record on summary judgment consists of those items referred to in the parties' summary judgment memorandum. A trial judge is not required to peruse every document in the record in ruling on a motion for summary judgment. *Harkins Amusement Enterprises, Inc. v. General Cinema Corp.*, 850 F.2d 477, 482 (9th Cir. 1988), cert. denied, 488 U.S. 1019 (1989).

from antitrust liability under the *Noerr-Pennington* doctrine. In support of its conclusion, the court stated:

[I]t was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the court of appeals had trouble with it as well. I find that there was probable cause for bringing the action

On the basis of its finding that the action was not a sham, the court also held that further discovery was not required. Finally, the court dismissed PRE's pendent state law claims.

ANALYSIS

PRE asserts that summary judgment in favor of Columbia Pictures was improper because: (1) the court focused only on the lawsuit and failed to consider PRE's other allegations of anticompetitive conduct; (2) the copyright infringement action was a sham; and (3) the court should have permitted PRE additional discovery to prove that the copyright lawsuit was a sham. PRE also argues that the district court abused its discretion in dismissing the pendent state law claims. We address these arguments in turn.

1. Anticompetitive conduct

PRE argues that the summary judgment was improper because the district court failed to consider PRE's other allegations of anticompetitive conduct. In addition to the copyright suit, PRE alleged that the Movie Studios: (1) concertedly refused to grant licenses to PRE to rent videodiscs to its guests; (2) filed or threatened to file similar copyright suits to intimidate other hotels and resorts from adopting similar video rental programs; (3) entered re-

strictive distribution agreements prohibiting the rentals of videos except for home use; (4) attached misleading copyright labels to their videos stating that viewing of the video was restricted to home use; and (5) published threatening advertisements in hotel trade journals warning hotels not to rent or use the plaintiffs' copyrighted videos for viewing in guest rooms. Although the court did not address these additional allegations,⁴ we conclude that reversal is not required.

PRE's first allegation — the concerted refusal to deal — relates to PRE's attempts, after Columbia Pictures instituted the copyright infringement action, to obtain licenses from the Movie Studios to use and install in-room videodisc systems in the guest rooms. On the facts of this case, PRE's request for licensing amounted to an offer to

⁴ We disagree with the Movie Studios' assertion that the district court carefully considered and rejected the refusal to deal allegation at oral argument on December 18, 1989. At the hearing, the court discussed the claim, but did not make a ruling. The court took the motion to dismiss under submission to determine the applicable law. The court did not address this issue again, either at the hearing or in the subsequent order granting summary judgment.

We also reject the Movie Studios' argument that the only other allegation of anticompetitive conduct made by PRE was the concerted refusal to deal. PRE's complaint alleges:

[The Movie Studios] engaged in and continue to engage in the following activities, among others: the filing of this suit, which is a sham and false and known by plaintiffs to be so; bad faith prosecution of this suit; boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs; and other activities to coerce defendants into acquiescing to plaintiffs' attempts to monopolize, restrain and eliminate the relevant trade and commerce and to destroy counter-claimants' business.

(Emphasis added). PRE detailed the other four claims of anticompetitive conduct and set out their factual allegations in various motions for discovery. Moreover, PRE included all five allegations in its opposition to the motion for summary judgment.

settle the lawsuit. If Columbia Pictures agreed to license PRE, the lawsuit would be moot.

A decision to accept or reject an offer of settlement is conduct incidental to the prosecution of the suit and not a separate and distinct activity which might form the basis for antitrust liability. Consequently, PRE's ability to establish that the Movie Studios' refusal to deal violated the Sherman Act depends on its success or failure in showing that the copyright infringement action is actionable under the federal antitrust laws. See generally *Aircapital Cablevision, Inc. v. Starlink Communications Group, Inc.*, 634 F. Supp. 316, 326 (D.Kan. 1986) (where underlying litigation is not a sham, attendant publicity is protected by *Noerr-Pennington* doctrine). This issue is discussed in section 2, *infra*.

The four remaining allegations do not establish a violation of either section 1 or section 2 of the Sherman Act because PRE failed to demonstrate that the alleged conduct caused antitrust injury. See *Rickards v. Canine Eye Registration Foundation, Inc.*, 783 F.2d 1329, 1332, 1335 (9th Cir.), *cert. denied*, 479 U.S. 851 (1986) (to establish a violation of Sherman Act sections 1 or 2, an antitrust plaintiff must establish the element of "causal antitrust injury"). PRE neither pleaded nor presented evidence that the La Mancha Resort's videodisc rental service had been interrupted, that the Resort lost a single guest, or that the Movie Studios' conduct prevented Irwin from marketing the Resort's video viewing system to other hotels. We note that PRE did not need formal discovery procedures to establish resulting antitrust injury to the resort or to ascertain the basis for other hotels' rejection of Irwin's video system.

We reject PRE's argument that Kenneth Irwin's declaration provides an initial showing of the injury element.

Irwin's affidavit does not satisfy the requirements of Fed. R. Civ. P. 56(e).⁵ The affidavit states in relevant part:

I had attempted to develop a market for the sale and installation of video disc player equipment to other hotels for private, in-room, movie viewing. As an RCA representative, I had contacted other hotels in an attempt to install video disc player equipment using the in-room video technology employed at our La Mancha facility. I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterdefendant movie studios. I believe further that larger chains, in particular, were reluctant to make a substantial investment in video technology absent a license from the movie studios.

Because Irwin's declaration is not based on personal knowledge, but on information and belief, his statement does not raise a triable issue of fact regarding antitrust injury. See *Taylor v. List*, 880 F.2d 1040, 1045 n.3 (9th Cir. 1989).

2. Noerr-Pennington

If the bringing of Columbia's copyright infringement suit violated the antitrust laws, however, the costs of defending the suit would constitute antitrust injury. *Rickards*, 783 F.2d at 1334-35. We therefore address PRE's claim that the infringement suit itself violated the antitrust laws.

⁵ Rule 56(e) provides:

Supporting and opposing affidavits shall be made on personal knowledge, shall set forth such facts as would be admissible in evidence, and shall show affirmatively that the affiant is competent to testify to the matters stated therein.

Under the *Noerr-Pennington* doctrine,⁶ the filing of a lawsuit is immune from the antitrust laws unless the suit is a "sham." *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972). A sham suit is one that is an abuse of the judicial processes. *Id.* at 513. In *California Transport*, the Supreme Court identified two types of sham activity: "misrepresentations . . . in the adjudicatory process" and the pursuit of "a pattern of baseless, repetitive claims." *Id.* Thus, in *California Transport*, the Court held that a complaint alleging that the petitioner's competitors initiated administrative proceedings against the petitioner "without probable cause, and regardless of the merits," stated an antitrust cause of action. *Id.* at 512.

Columbia Pictures' copyright infringement action does not involve either of these two types of sham activity. PRE does not allege that the lawsuit involved misrepresentations. Moreover, PRE does not challenge the district court's finding that the infringement action was brought with probable cause, i.e., that the suit was not baseless. Rather, PRE argues that the copyright infringement lawsuit is a sham because Columbia Pictures did not honestly believe that the infringement claim was meritorious. According to PRE, Columbia Pictures' subjective intent in bringing the suit was a question of fact precluding entry of summary judgment.

Curiously, PRE cites our decision of *Rickards v. Canine Eye Registration Foundation, Inc.*, 783 F.2d at 1334, and the Fifth Circuit's decision of *In re Burlington Northern, Inc.*, 822 F.2d 518, 529 (5th Cir. 1987), in support of its assertion that a suit is a sham if the litigant did not have an honest belief that the suit was meritorious. These two opinions, however, are at odds with each other in their

⁶ *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

analysis of whether a lawsuit is a sham. We have not followed the Fifth Circuit's approach in evaluating this issue.

In *In re Burlington Northern, Inc.*, the Fifth Circuit held that a litigant's subjective motivation in bringing a lawsuit is a factor in determining whether the action is a sham. According to the Fifth Circuit, "the determinative inquiry is not whether the suit was won or lost, but whether it was significantly motivated by a *genuine* desire for judicial relief." 822 F.2d at 528. The court explained that "a genuine desire for relief means that the desire for relief must be both honest and reasonable." *Id.* at 529. On the basis of this analysis, the court rejected the argument that a successful lawsuit can never be a sham. *Id.* at 528.

Unlike the Fifth Circuit, we have held that a suit must be baseless to lose its protection under the *Noerr-Pennington* doctrine. In *Rickards*, we emphasized that immunity is not afforded to those who resort to "*sham or unfounded* litigation solely for anticompetitive purposes" and that "a single *meritless* suit" may be sufficient to defeat the *Noerr-Pennington* immunity. 783 F.2d at 1334 (emphasis added). We explained that our cases require both evidence that the lawsuit is *baseless* and evidence of anticompetitive activity before *Noerr-Pennington* immunity will be ruled out. *Id.*

When the antitrust plaintiff challenges one suit and not a pattern, a *finding of sham* requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anti-competitive.

Id. (emphasis added) (quoting *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984)). Thus, in *Rickards*, in determining whether the sham exception was applicable, we considered the defendant's good-

faith belief in the merits of its suit only after we noted that the underlying litigation was baseless.

In contrast, in *Ad Visor, Inc. v. Pacific Telephone & Telegraph Co.*, 640 F.2d 1107 (9th Cir. 1981), our inquiry ended once it was determined that the litigant's lawsuits were not baseless. There, we held that a litigant who brought 64 lawsuits for nonpayment of contract was protected by the *Noerr-Pennington* doctrine for prosecuting the suits because one defendant in the original action admitted that it owed the plaintiff and another defendant conceded that it *might* owe the plaintiff some money. *Id.* at 1110. Similarly, in *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984), our analysis terminated once we determined that the underlying lawsuit was not a sham.

Finally, in contrast to the Fifth Circuit, we have held that the prosecution of a single successful lawsuit cannot form the basis for antitrust liability. *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1384 (9th Cir. 1984). Because a successful lawsuit involving no fraud upon the court is obviously based on probable cause, it cannot be a sham as a matter of law.⁷ See *Omni Resource*, 739 F.2d at 1414

⁷ PRE claims that we have never held that a successful lawsuit cannot be a sham as a matter of law. PRE first asserts that *Sealy* merely recognizes that this circuit has not yet found a successful lawsuit to be a sham. We disagree. *Sealy* makes no such statement. PRE also points to a dictum in *Ernest W. Hahn, Inc. v. Coddling*, 615 F.2d 830, 841 n.13 (9th Cir. 1980), and *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1245 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983), which states that success is not the sole criterion for determining whether a suit is a sham. This dictum is not inconsistent with our holding in *Sealy* insofar as it refers to the second type of sham activity identified in *California Transport*—"misrepresentations in the adjudicatory process." If a litigant procures a favorable judgment through misrepresentations or other unethical conduct, the success of the lawsuit would not shield the litigant from the antitrust laws. For example, in *Clipper Express*, the plaintiffs alleged that the defendants

(suit cannot be baseless where, although outcome unknown, the state court plaintiffs were successful at least to the point of receiving a preliminary injunction); *Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1257 n.17 (9th Cir. 1982) (no authority for the proposition that the bringing of meritorious suits can constitute sham suits violative of the antitrust laws).⁸

Because the sham exception to the *Noerr-Pennington* rule may have a chilling effect on those who seek redress in the courts, we have held that the exception should be applied with caution. *Rickards*, 783 F.2d at 1334. We see no basis for holding that a suit brought with probable cause in fact and law may be a sham. Such a holding would erode the first amendment right to petition that is the basis for the *Noerr-Pennington* doctrine, see *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 137-38 (1961), by imposing the risk of

attempted to influence the ICC by supplying fraudulent information to the ICC. 690 F.2d at 1247. As noted earlier, there are no allegations of misrepresentation in the present case.

⁸ The Supreme Court has also indicated that successful petitioning cannot be a sham. See *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 502 (1988) (effort to influence governmental action by lobbying an organization that promulgates code for electrical materials cannot be characterized as a sham in light of the actual adoption of the code into a number of statutes and local ordinances). The Third, Fourth, Sixth, and Tenth Circuits have also so held. See *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 161 (3d Cir. 1984) (success on merits of copyright infringement claim precludes finding of sham); *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 564-65 (4th Cir. 1990), *cert. denied*, 111 S.Ct. 1414 (1991) (successful suit cannot be a sham); *Potters Medical Center v. City Hosp. Ass'n*, 800 F.2d 568, 579 (6th Cir. 1986) (success strongly suggests that actions were not baseless); *Edward B. Marks Music Corp. v. Colorado Magnetics, Inc.*, 497 F.2d 285, 290-92 (10th Cir. 1974), *cert. denied*, 419 U.S. 1120 (1975) (any suggestion of sham on the part of the litigant disappears in view of our determination that the litigant has an enforceable copyright interest).

treble damages for initiating a suit based on a well-founded, but untested, legal theory.

In the present case, the Movie Studios' copyright infringement suit presented an issue of first impression both at the district court level and in this circuit. The first amendment right of petition is particularly strong in such a case. The district court concluded that the lawsuit was brought with probable cause and presented issues that were difficult to resolve. This finding, which PRE does not challenge, precludes the application of the sham exception as a matter of law.⁹

PRE points to language in three of our cases stating that the applicability of the sham exception is a question of fact: *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897 (9th Cir. 1983); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386 (9th Cir. 1983). From this language, PRE argues that the determination that a lawsuit is brought with probable cause — a legal question — cannot be the test in this circuit for ascertaining whether the suit is a sham.

We do not believe that the language referred to in the three cases cited above is inconsistent with our holding. Although we have never referred to our analysis as a two-part test, it is clear from our discussion in *Rickards*, as well as in our other cases, that an antitrust plaintiff must make a two-part showing to support a finding of sham: (1) that the suit is baseless — a legal question, see *Sealy*, 743 F.2d at 1384 (affirming grant of summary judgment where underlying suit was successful); and (2) that the suit

⁹ The fact that the present lawsuit was resolved on cross-motions for summary judgment does not affect our evaluation of the objective reasonableness of the suit. The questions presented in the infringement action were purely legal.

was brought as part of an anticompetitive plan external to the underlying litigation — a question of fact. In the three cases cited by PRE, only the second prong of the test was at issue. *See e.g., Clipper Express*, 690 F.2d at 1253 (whether sham exception applies is a question of fact where defendants conceded that they instituted protests before the ICC automatically and without regard to merit); *Aydin*, 718 F.2d at 902 (affirming grant of summary judgment where plaintiff produced no evidence of sham aside from the filings of the actions; court was unable to determine whether the suit was baseless because the action was still pending); *Heliodyne, Inc.*, 698 F.2d at 389 (remanding for reconsideration in light of *Clipper Express* where the plaintiff alleged that the defendant Heliodyne conspired with other competitors to bring a sham suit against the plaintiff in state court and it appeared that the district court may have dismissed on the mistaken belief that a single lawsuit could not constitute a sham).

We decline to adopt the Fifth Circuit's subjective approach and reaffirm our earlier holding in *Rickards*. We believe that the Supreme Court's pronouncements on the sham exception support our conclusion. *See Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731, 743 (1983) (by analogy to the *Noerr-Pennington* doctrine and its sham exception, the NLRB may enjoin a suit as an unfair labor practice only if the suit was "based on insubstantial claims" or lacked "a reasonable basis").¹⁰ Simply stated, a suit brought with probable cause does not fall within the sham exception to the *Noerr-Pennington* doctrine.¹¹

¹⁰ In *Bill Johnson*, the Court concluded:

[W]e hold that the Board may not halt the prosecution of a state-court lawsuit, *regardless of the plaintiff's motive, unless the suit lacks a reasonable basis in fact or law*. Retaliatory motive and lack of reasonable basis are both essential prerequisites to the issuance of a cease-and-desist order against a state suit. *Id.* at 748-49 (emphasis added).

¹¹ We note that several other circuits are in accord with our conclu-

3. Discovery

In its reply brief, PRE argues that the summary judgment must be reversed because the district court failed to rule on its request for discovery. PRE relies on *Garrett v. City & County of San Francisco*, 818 F.2d 1515 (9th Cir. 1987). In *Garrett*, we held that the trial court erred in failing to consider the plaintiff's pending motion for discovery prior to granting the defendant's motion for summary judgment because the evidence sought by the plaintiff in discovery was necessary to satisfy the plaintiff's burden of persuasion on summary judgment.

Although summary judgment is rarely granted in anti-trust cases before discovery is completed, *see Ernest W. Hahn, Inc. v. Coddling*, 615 F.2d 830, 834 (9th Cir. 1980), we conclude that the district court did not abuse its discretion in denying PRE's request for further discovery. We disagree with PRE's assertion that the district court did not resolve the request for discovery.¹² In its decision, the court noted that PRE requested discovery on the issue of the Movie Studios' subjective intent in bringing the copyright action. The court then concluded that even if

sion. *See Eden Hannon & Co.*, 914 F.2d at 564-65 (intent of litigant only becomes relevant once the invalidity of the legal claims is established); *Juster Associates v. City of Rutland*, 901 F.2d 266, 271 (2d Cir. 1990) ("To be immune, participation in administrative or judicial processes must be for the purpose of asserting colorable claims within the jurisdiction of the particular tribunal."); *Opdyke Inv. Co. v. City of Detroit*, 883 F.2d 1265, 1273 (6th Cir. 1989) (unsuccessful lawsuit not a sham where the trial court did not treat the theory as frivolous and the antitrust plaintiffs did not contend that the theory of the underlying case was so farfetched as to warrant the imposition of sanctions against the attorneys who brought it); *Potters Medical Center*, 800 F.2d at 579 (success is not necessarily a prerequisite to receiving protection under *Noerr-Pennington*).

¹² We note that this assertion is inconsistent with PRE's opening brief, where PRE stated that the court based its denial of the request for discovery on its conclusion that a lawsuit brought with probable cause could not be a sham.

the Movie Studios had an anticompetitive intent in bringing the action, they did not lose their *Noerr-Pennington* immunity. Thus, the court implicitly ruled that the materials sought in discovery would not defeat PRE's motion for summary judgment.

The district court's conclusion is consistent with our holding on the *Noerr-Pennington* issue; evidence of the Movie Studios' subjective intent was relevant only if it was shown that the copyright infringement action was baseless. *Garret* is therefore inapposite; PRE's discovery of the Movie Studios' subjective intent would not raise an issue of material fact sufficient to preclude the entry of summary judgment.

4. Dismissal of the state law counterclaims

PRE advances two arguments in support of its assertion that the district court erred in dismissing its state law counterclaims. PRE first contends that the district court should not have dismissed its state law claims because they were compulsory counterclaims. PRE asserts that once ancillary jurisdiction attaches, a court is not relieved of its power to hear the ancillary state claims by subsequent dismissal of the federal claims. This argument lacks merit. The district court's power to hear claims is not at issue; the question is whether the district court acted within its discretion in dismissing the state law claims.

The court's decision to dismiss the claim is governed by "considerations of judicial economy, convenience and fairness to litigants." *Notrica v. Bd. of Supervisors of County of San Diego*, 925 F.2d 1211, 1213 (9th Cir. 1991) (quoting *United Mine Workers of America v. Gibbs*, 383 U.S. 715, 726 (1966)). PRE argues that, in light of these factors, the district court should not have dismissed its state law claims. PRE notes that the counterclaims have been pending in the district court for six years and the court is familiar with the claims. In addition, PRE asserts that forcing it to initiate a new suit in state court would subject

it to further delay and possibly to additional defenses such as the statute of limitations.

Although we sympathize with PRE, we cannot, on these facts, conclude that the district court abused its discretion in dismissing the state law counterclaims. First, PRE would not be prejudiced if required to file its state law claims in the state courts. California equitably tolls the statute of limitations period during the time a suit is pending in federal court. See *Addison v. State*, 21 Cal.3d 313, 319, 146 Cal.Rptr. 224, 578 P.2d 941 (1978). PRE's remaining argument—that the filing in state court would cause further delay—is foreclosed by *Danner v. Himmelfarb*, 858 F.2d 515, 523 (9th Cir. 1988), cert. denied, 490 U.S. 1067 (1989). There, we held that delay does not constitute a sufficient basis for finding that the district court abused its discretion.

The decision of the district court is
AFFIRMED.

APPENDIX B**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. CV 83 2594 WPG

**COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,****vs.****PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.**

**FILED
CLERK, U.S. DISTRICT COURT
APR 8 1990
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY**

**AMENDED SUMMARY JUDGMENT IN FAVOR OF
PLAINTIFFS ON COUNTERCLAIM AND RELATED
COUNTERCLAIM**

On December 18, 1989, the above-captioned matter came on regularly for hearing in the Courtroom of the Honorable William P. Gray, District Judge, on plaintiffs' and counterclaim defendants' motion for summary judgment on the counterclaim asserted by defendants and cross-complainants. Plaintiffs and counterclaim defendants appeared through their counsel, Rosenfeld, Meyer & Susman and Stephen A. Kroft and James L. Seal, and defendants and counterclaim plaintiffs appeared through their counsel, Collier, Shannon & Scott and Jeffrey W. King. The parties

filed memoranda of points and authorities and affidavits in support of and in opposition to said motion prior to the December 18, 1989 hearing. After the hearing, the parties submitted additional memoranda of points and authorities in support of and in opposition to the motion.

Having read and considered the papers filed by the parties in support of and in opposition to the motion, and having heard and considered oral argument of counsel, and having determined that plaintiffs and counterclaim defendants are entitled to a judgment on the counterclaim as a matter of law, and good cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. Plaintiffs' and Counterclaim Defendants' Motion For Summary Judgment As To The First, Second And Third Counterclaims And For Dismissal Of Remaining Pendent Claims is granted.

2. The First Counterclaim, Second Counterclaim and Third Counterclaim, and each of them, are hereby dismissed on the merits with prejudice.

3. The pendent claims arising under state law asserted in the Fourth Counterclaim, Fifth Counterclaim, Sixth Counterclaim and Seventh Counterclaim are hereby dismissed without prejudice for lack of subject matter jurisdiction.

4. Plaintiffs-and counterclaim defendants shall have and recover their costs incurred in defending the Counterclaim and each claim contained therein.

5. Until all appeals, if any, from this amended judgment have been resolved, dismissed or abandoned, or the time for filing a notice of appeal from this amended judgment has expired without such a notice of appeal having been filed, or until otherwise ordered by this Court or by the Ninth Circuit Court of Appeals, plaintiffs and counterclaim

defendants are prohibited from destroying documents related in any way to the counterclaims. This Court shall retain continuing jurisdiction to dissolve, vacate, suspend, modify or enforce the provisions of this Paragraph 5 during the pendency of any appeal in this action.

6. The Clerk is directed to enter this amended judgment in favor of plaintiffs and counterclaim defendants forthwith.

DATED: April 4, 1990

/s/ William P. Gray
WILLIAM P. GRAY
UNITED STATES DISTRICT JUDGE

APPENDIX C
UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.

FILED
CLERK, U.S. DISTRICT COURT
MAR 2 1990
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

MEMORANDUM OF DECISION

The plaintiff's motion for summary judgment on the defendant's counterclaim was heard on December 12, 1989, and taken under submission by the court for the purpose of determining whether the "sham" exception to the Noerr-Pennington doctrine¹ applies to the action of the plaintiff in having filed and prosecuted this case. The court now concludes that such action was not a sham and that, under the Noerr-Pennington doctrine, the counterclaim must be dismissed.

¹ *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); and *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

The claim that the plaintiff set forth in its complaint was adjudicated by this court. It was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the Court of Appeals had trouble with it as well. I find that there was probable cause for bringing the action, regardless of whether the issue was considered a question of fact or of law.

Under the Noerr-Pennington doctrine, "[f]irst amendment protection is extended and application of the anti-trust laws suspended because a legitimate effort to influence government action is part of the guaranteed right to petition." *Clipper Express v. Rocky Mountain Motor Tariff*, 690 F.2d 1240, 1255 (9th Cir. 1982). Here the plaintiff's attempt, although unsuccessful, was clearly a legitimate effort and therefore not a sham.

The defendant points to the comment in the opinion in *Clipper* that "whether something is a genuine effort to influence governmental action is a question of fact." 690 F.2d at 1253. The defendant then insists that it is entitled to discovery in an effort to show that the plaintiff brought this action in furtherance of its efforts "to restrain and eliminate trade in the retail sale and rental of videos and, in particular, in the rental of videos for private viewing in hotel rooms." (Defendant's brief of February 12, 1990, page 2, fn. 1).

However, as is pointed out in *Clipper*, 690 F.2d at 1251; the Supreme Court in *Noerr* held that "even if the defendants' sole purpose in seeking to influence the passage and enforcement of laws was to destroy the truckers' business, the immunity remained."

This case is distinguishable from *Clipper* and from *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), upon which the defendant relies, in that,

there, the actions alleged to have been sham were assertions made in pleadings and could not be factually evaluated; here, the accused actions were adjudicated by the court and specifically determined not to have been a sham.

In accordance with the foregoing, a judgment dismissing the counterclaim will be rendered

DATED: March 1, 1990

/s/ William P. Gray
WILLIAM P. GRAY
United States District Judge

APPENDIX D
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 86-5641

D.C. No.
CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC.; EMBASSY PICTURES;
PARAMOUNT PICTURES CORPORATION; TWENTIETH CENTURY-
FOX FILM CORPORATION; UNIVERSAL CITY STUDIO, INC;
WALT DISNEY PRODUCTION; WARNER BROS., INC.; CBS,
INC.,

Plaintiffs-Appellants,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., dba La Man-
cha Private Club & Villas; KENNETH F.-IRWIN,
Defendants-Appellees.

No. 86-5664

D.C. No.
CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC.; PARAMOUNT
PICTURES CORPORATION; TWENTIETH CENTURY-FOX FILM
CORPORATION; UNIVERSAL CITY STUDIOS, INC.; WALT
DISNEY PRODUCTIONS; WARNER BROS., INC.; CBS, INC.;
EMBASSY PICTURES,

Plaintiffs-Appellants,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., dba La Man-

cha Private Club & Villas; KENNETH F. IRWIN; ERLAND
KYLLOENEN,
Defendants-Appellees.

No. 86-5677

D.C. No.
CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC.; PARAMOUNT
PICTURES CORPORATION; TWENTIETH CENTURY-FOX
DISTRIBUTING CORPORATION; UNIVERSAL CITY STUDIOS,
INC.; WALT DISNEY PRODUCTIONS; WARNER BROS., INC.;
CBS, INC.; EMBASSY PICTURES, *Plaintiffs-Appellants,*
v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., dba La Man-
cha Private Club & Villas; KENNETH F. IRWIN,
Defendants-Appellees

OPINION

Appeal from the United States District Court
for the Central District of California,
William P. Gray, District Judge, Presiding

Argued January 9, 1987

Reargued and Submitted March 22, 1988
Pasadena, California

Filed January 17, 1989

Before: Harry Pregerson, Arthur L. Alarcon and
Diarmuid F. O'Scannlain, Circuit Judges.*

Opinion by Judge O'Scannlain

SUMMARY

Copyright, Patent and Trademark

Affirming a grant of summary judgment, the court held
that a hotel did not violate the Copyright Act by renting

* This case was originally argued before Judges Kennedy, O'Scann-

videodiscs to its guests for viewing on hotel-provided video equipment in the guests' rooms.

Columbia Pictures, Inc. and other appellants, appeal the district court's grant of summary judgment in favor of Professional Real Estate Investors of La Mancha Hotel. The district court concluded that a hotel did not violate the Copyright Act by renting videodiscs for viewing on hotel-provided video equipment in guests' rooms.

[1] The issue is whether La Mancha performed copyrighted works "publicly" within the meaning of 17 U.S.C. § 1064(4). [2] Applying the public place clause of section 101, Columbia argues that because La Mancha's hotel rooms can be rented by members of the public, they are "open to the public," and therefore, movies viewed in a guest's room at La Mancha are "performed publicly." Hotel guest rooms, however, are not "public" for purposes of the Act. [3] The movies are viewed exclusively in guest rooms, places where individuals enjoy a substantial degree of privacy, not unlike their own homes. [4] Nor does La Mancha "communicate" the in-room performances. Facilitation of the in-room performance does not mean that La Mancha "otherwise communicates" under the transmit clause of section 101.

COUNSEL

Stephen A. Kroft, Rosenfeld, Meyer & Susman, Beverly Hills, California, for the plaintiffs-appellants.

Jeffrey W. King, Collier, Shannon, Rill & Scott, Washington, D.C., for the defendants-appellees.

lain, and Wilkins. Upon his appointment to the Supreme Court of the United States in February 1988, Judge Kennedy was replaced by Judge Reinhardt. Prior to reargument, Judge Wilkins was replaced by Judge Pregerson. Subsequent to reargument, Judge Reinhardt was replaced by Judge Alarcon, who has read the briefs and listened to the tapes of the reargument.

OPINION

O'SCANNLAIN, Circuit Judge

Columbia Pictures, Inc. and other appellants, all of which are motion picture producers, appeal the district court's grant of summary judgment in favor of Professional Real Estate Investors, Inc. and Kenneth Irwin, operators of La Mancha, a hotel resort in Palm Springs, California. The district court (William P. Gray, Senior United States District Judge, presiding) concluded that a hotel did not violate the Copyright Act by renting videodiscs for viewing on hotel-provided video equipment in guests' rooms. We affirm Judge Gray's decision.

FACTS AND PROCEEDINGS

La Mancha hotel guests may rent movie videodiscs from the lobby gift shop for a \$ 5 to \$ 7.50 daily fee per disc, which can be charged on the hotel bill. Each guest room is equipped with a large screen projection television and videodisc player. Motel employees are available upon request to answer questions by guests about operating the in-room equipment. Guests view the videodisc movies projected on the television screens in their rooms.

After learning of these activities at La Mancha, Columbia Pictures, Inc. and six other motion picture studios ("Columbia") filed suit to prevent La Mancha¹ from renting videodiscs to its guests, alleging copyright infringement. La Mancha counterclaimed, alleging unfair competition and violation of antitrust laws. Cross-motions for summary judgment concerning the copyright infringement claim were thereafter filed.

The district court granted La Mancha's motion for summary judgment, concluding as a matter of law that the

¹ Defendants Professional Real Estate Investors, Inc. and Kenneth Irwin will be referred to as "La Mancha" in this opinion.

movies were not performed "publicly" within the meaning of the Copyright Act when hotel guests viewed them in their own hotel rooms. Columbia timely appealed.

Because this case was decided on summary judgment, our review is *de novo*. *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 852 (9th Cir. 1988).

DISCUSSION

[1] We are asked to determine whether La Mancha has violated Columbia's exclusive right under the Copyright Act, 17 U.S.C. §§ 101-702 (the "Act"), to control the public performance of its copyrighted motion pictures. Because it is uncontroverted that the motion pictures have been "performed" within the meaning of the Act,² the narrow issue before us is whether La Mancha performed copyrighted works "publicly"³ within the meaning of 17 U.S.C. § 106(4).

A performance may be characterized as public under the Act through application of two clauses which define the term "perform or display a work 'publicly.'" Under clause (1), a performance is public if it occurs "at a place open

² To "perform" a work is defined in the Copyright Act as, "in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible." 17 U.S.C. § 101 (1977).

³ The district court observed that the "first sale doctrine" allows one who purchases or rents videodiscs legally to view them in his or her home. *Columbia Pictures v. Professional Real Estate Investors*, 228 U.S.P.Q. 743, 745 (C.D. Cal. 1986). Judge Gray thereupon held that "the viewing of a motion picture in a hotel room is no different from viewing movies in a private home." *Id.* Columbia does not dispute La Mancha's right under the first sale doctrine itself; instead, it contends that the "public" nature of hotels takes this case outside the ambit of the first sale exception. Such an interpretation of the first sale doctrine would presumably protect La Mancha's rental of videodiscs to its guests (an issue we need not address) unless the public place or transmit clause applies.

to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." 17 U.S.C. § 101 (1977) (the "public place" clause). Under clause (2), a performance is public if someone "transmit[s] or otherwise communicate[s] a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times." *Id.* (the "transmit" clause). Columbia argues that when La Mancha permits hotel guests to rent videodiscs for in-room viewing on hotel provided equipment, such actions constitute a public performance under either definitional clause of the Act.⁴

A. Does the Public Place Clause Apply?

Columbia bases its copyright infringement claim against La Mancha upon section 106, which provides, in pertinent part:

⁴ Unless otherwise indicated, we assume that the legislative will is expressed by the ordinary meaning of the words used in the statute. *Moorhead v. United States*, 774 F.2d 936, 941 (9th Cir. 1985). Consequently, the plain language is regarded as conclusive, *Central Montana Elec. v. Administrator of Bonneville Power*, 840 F.2d 1472, 1477 (9th Cir. 1988), unless (1) the statutory language is unclear, (2) the plain meaning of the words is at variance with the policy of the statute as a whole, or (3) a clearly expressed legislative intent exists contrary to the language of the statute. See *Richards v. United States*, 369 U.S. 1, 11 (1962) ("We believe it fundamental that a section of a statute should not be read in isolation from the context of the whole Act, and that fulfilling our responsibility in interpreting legislation, 'we must... look to the provisions of the whole law, and to its object and policy.' " (citations omitted); *Escobar Ruiz v. I.N.S.*, 838 F.2d 1020, 1023 (9th Cir. 1988). Ultimately, "[i]n construing statutes our goal is to 'ascertain the intent of Congress and to give effect to legislative will.'" *West Coast Tuck Lines v. Arcata Comm. Recycling Center, Inc.*, 846 F.2d 1239, 1242 (9th Cir. 1988) (quoting *Turner v. McMahon*, 830 F.2d 1003, 1007 (9th Cir. 1987)).

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

....

(4) in the case of ... motion pictures ... to perform the copyrighted work publicly.

[2] Applying the public place clause of section 101, Columbia argues that because La Mancha's hotel rooms can be rented by members of the public, they are "open to the public," and therefore, movies viewed in a guest's room at La Mancha are "performed ... publicly." The plain language and the legislative history together lead us to conclude that hotel guest rooms are not "public" for purposes of the Act.

Columbia largely relies upon two Third Circuit cases for its position. In *Columbia Pictures Industries v. Redd Horne*, 749 F.2d 154 (3d Cir. 1984), the Third Circuit held that private viewing rooms would not escape the "public place" clause because the pertinent place was the entire store — which was public. *Id.* at 159. That court drew its conclusion after determining that "[t]he services provided by Maxwells [the video stores] are essentially the same as movie theaters." *Id.*

In *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986), the court noted that "[o]ur opinion in *Redd Horne* turned not on the precise whereabouts of the video cassette players, but on the nature of Maxwell's stores. Maxwell's, like Aveco, was willing to make a viewing room and video cassette available to any member of the public with the inclination to avail himself of this service." *Id.* at 63 (emphasis added).

La Mancha's operation differs from those in *Aveco* and *Redd Horne* because its "nature" is the providing of living accommodations and general hotel services, which may in-

cidentally include the rental of videodiscs to interested guests for viewing in guest rooms.

[3] While the hotel may indeed be "open to the public," a guest's hotel room, once rented, is not. See *Stoner v. California*, 376 U.S. 483, 490 (1964) (constitutional protection from unreasonable searches and seizures in hotel rooms); *United States v. Winsor*, 846 F.2d 1569 (9th Cir. 1988) (en banc) (same). This conclusion is further supported by common experience. La Mancha guests do not view the videodiscs in hotel meeting rooms used for large gatherings. The movies are viewed exclusively in guest rooms, places where individuals enjoy a substantial degree of privacy, not unlike their own homes.

Consideration of pertinent legislative history also compels our rejection of appellant's claim. The House Commentary on the 1976 version of the Act attempted to clarify the meaning of "perform the copyrighted work publicly":

Under Clause (1) of the definition of "publicly" in § 101, a performance ... is "public" if it takes place "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." One of the principal purposes of the definition was to make clear that, contrary to the decision in *Metro-Goldwyn-Mayer Dist. Corp. v. Wyatt*, 21 C.O. Bull. 203 (D. Md. 1932), performances in "semi-public" places such as clubs, lodges, factories, summer camps and schools are "public performances" subject to copyright control. The term "a family" in this context would include an individual living alone, so that a gathering confined to the individual's social acquaintances would normally be regarded as private. Routine meetings of businesses and governmental personnel would be excluded because

they do not represent the gathering of a "substantial number of persons."⁵

H.R. Rep. No. 1476, 94th Cong., 2d Sess., reprinted in 1976 U.S. Code Cong. & Admin. News 5659, 5677-78. This passage from the legislative history reveals that Congress intended neither the number of persons at a performance nor the location of the performance to be determinative of the public character of a performance. Nevertheless, to the extent that a gathering of one's social acquaintances is normally regarded as private, we conclude that in-room videodisc movie showings do not occur at a "place open to the public."

B. Does the Transmit Clause Apply?

Columbia also argues that La Mancha's rentals result in a public performance under the "transmit" clause. We disagree.

The crucial words of the transmit clause provide that a non-privileged individual cannot "transmit or otherwise communicate" a copyrighted work. Columbia admits that Irwin's activities do not violate the "transmit" portion of this clause. The question then is whether La Mancha "otherwise communicate[s]" movies "to the public."

[4] We hold that La Mancha does not "communicate" the in-room performances at all. Although the term "communicate" is undefined in the Copyright Act, and has countless meanings in common parlance, we are not persuaded that facilitation of the in-room performance means that La Mancha "otherwise communicates" under the transmit clause.

A plain reading of the transmit clause indicates that its purpose is to prohibit transmissions and other forms of

⁵ Columbia does not assert the applicability of the second part of clause (1) beginning with "or at any place. . . ." Thus, we need not consider this part of the clause.

broadcasting from one place to another without the copyright owner's permission. The Act provides a definition of "transmit." "To 'transmit' a performance or display is to communicate it by any device or process whereby images and sounds are received beyond the place from which they are sent." Section 101. According to the rule of *ejusdem generis*, the term "otherwise communicate" should be construed consistently with the term "transmit." See *Harrison v. PPG Indus., Inc.*, 446 U.S. 578, 588 (1980) (where general words follow the enumeration of specific terms, general words are read as applying only to other terms akin to those specifically enumerated); *Santa Fe Pacific R. Co. v. Secretary of Interior*, 830 F.2d 1168, 1175 (D.C. Cir. 1987). Consequently, the "otherwise communicate" phrase must relate to a "process whereby images or sounds are received beyond the place from which they are sent." Section 101.

This reading is reinforced by the rest of the transmit clause which refers to the use of transmission devices or processes and the reception by the public of the performance. Devices must refer to transmission or communication devices, such as, perhaps, wires, radio towers, communication satellites, and coaxial cable, while reception of the performance by the public describes acts, such as listening to a radio, or watching — network, cable, or closed-circuit — television "beyond the place" of origination.

In sum, when one adds up the various segments of clause (2), one must conclude that under the transmit clause a public performance at least involves sending out some sort of signal via a device or process to be received by the public at a place beyond the place from which it is sent.⁶

⁶ This interpretation is consistent with the latter section of the transmit clause which deals with reception of the performance "in the same place or in separate places and at the same time or at different times." 17 U.S.C. § 101 (1977). The "place" or "places" are perforce "beyond

Nothing that La Mancha has done has violated this common sense construction of the transmit clause. While La Mancha has indeed provided the videodisc player, television screens, guest rooms, and makes videodiscs available in the lobby, we are not persuaded that any transmission of the kind contemplated by the statute occurs. If any transmission and reception occurs, it does so entirely within the guest room; it is certainly not received beyond the place from which it is sent. We are not persuaded that the term "otherwise communicate" can be read so broadly as to include the videodisc arrangements at La Mancha.

CONCLUSION

We conclude that La Mancha does not violate section 106(4) by providing in-room videodisc players and renting videodiscs to its guests. In drawing this conclusion, we are aware that technology has often leapfrogged statutory

the place from which" the performances originate. See H.R. Rep. No. 1476, 94th Cong., 2d Sess., reprinted in 1976 U.S. Code Cong. & Admin. News 5659, 5678. See also *infra* note 7.

schemes. Nevertheless, it is for Congress, not for the courts, to update the Copyright Act if it wishes to protect viewing of videodisc movies in guest rooms at La Mancha.⁷

AFFIRMED.

⁷ On appeal, Spectradyn, Inc. submitted an *amicus curiae* brief. Spectradyn, Inc. transmits movies within a closed circuit system in hotels on a pay per view basis. Spectradyn argues that (1) La Mancha's rental of videodiscs is an exhibition of motion pictures similar to Spectradyn's transmissions; (2) La Mancha's activities are public performances; and (3) the entire closed circuit industry is jeopardized by video rentals.

We reject all of Spectradyn's arguments. Spectradyn's closed circuit system falls squarely within the transmit clause of the Act. It uses wires to transmit a signal, employs a central transmission device, and the signal is received at places beyond the place from which it is sent. While it might be true that Spectradyn's system could be hurt by the arrangements at La Mancha, Congress, not the courts, has the constitutional authority and the institutional ability to accommodate this clash of economic interests. See *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 431 (1984).

APPENDIX E
UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

JUDGMENT

This action having come on for hearing before the Court, the Honorable William P. Gray, District Judge, presiding; the claims of the complaint having been duly heard and a decision having been duly rendered thereon; the Court having expressly determined that there is no just reason for delay; and the Court having expressly directed entry of a final judgment as to the claims of the complaint only,

IT IS ORDERED AND ADJUDGED

that plaintiffs Columbia Pictures, Inc., Embassy Pictures, Paramount Pictures Corporation, Twentieth Century-Fox Film Corporation, Universal City Studios, Inc., Walt Disney Productions, Warner Bros. Inc. and CBS Inc. ("plaintiffs") take nothing; that the claims of the complaint be dismissed on the merits; and that the defendants Professional Real Estate Investors, Inc. and Kenneth F. Irwin ("defendants") recover from the plaintiffs their costs of action in the amount of _____.

Dated at Los Angeles, California, this 22 day of January, 1986.

/s/ WILLIAM P. GRAY
Clerk of the Court

Presented by:

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By /s/ Laura J. Barnes
Laura J. Barnes
Attorneys for Defendants

[Certificate of Service omitted in this printing]

APPENDIX F

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

FILED

JAN 14 1986

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTYFINDINGS OF FACT, CONCLUSIONS OF LAW, AND
ORDER AND RELATED COUNTERCLAIM

This is a civil action brought by eight movie studios alleging copyright infringement. Plaintiffs contend in their complaint that defendants operate a resort facility and violate plaintiffs' copyrights to certain motion pictures by renting videodiscs of those motion pictures to the guests who stay at the resort for viewing on videodisc players placed by defendants in the guest rooms for that purpose. The central issue raised by the complaint is whether guests at the resort are "publicly performing" the videodiscs when they view the videodiscs in the privacy of the rooms they have rented.

The defendants filed an answer, which denied any wrongdoing, and filed counterclaims essentially alleging antitrust violations under the federal and state laws and unfair competition. Defendants' counterclaims were not at issue in the present motions.

The parties have filed cross summary judgment motions concerning the plaintiffs' copyright infringement claim. The parties have thoroughly briefed the infringement issue and a hearing on the cross-motions was held on December 16, 1985. Plaintiffs' claim of copyright infringement fails as a matter of law. The hotel rooms involved in this action are not public places under the copyright law. The findings of fact and conclusions of law, which form the basis of this opinion, are provided below.

FINDINGS OF FACT

A. Parties

1. The plaintiffs are eight movie studios that claim to own the copyrights in the motion pictures alleged to have been infringed. Plaintiffs are Columbia Pictures, Inc., a Delaware corporation; Embassy Pictures, a joint venture organized under the laws of the State of California between Lear Productions, Inc. and Perenchio Pictures, Inc.; Paramount Pictures Corporation, a Delaware corporation; Twentieth Century-Fox Film Corporation, a Delaware corporation; Universal City Studios, Inc., a Delaware corporation; Walt Disney Productions, a California corporation; Warner Brothers, Inc., a Delaware corporation; and CBS, Inc., a New York corporation.

2. Defendants are Professional Real Estate Investors, Inc., a California corporation, and its principal owner and chief operating officer, Kenneth F. Irwin. As pertinent to this case, Professional Real Estate Investors, Inc. operates a resort known as La Mancha Private Club and Villas, located at 444 North Avenida Caballeros, Palm Springs, California. Mr. Irwin, a resident of the State of California,

is a principal shareholder, director and chief operating officer of Professional Real Estate Investors, Inc. Mr. Irwin, in his capacity with Professional Real Estate Investors, Inc., serves as the chief operating officer and manager of the La Mancha resort.

3. The complaint also names as a defendant Erland Kyllonen. Mr. Kyllonen does not appear to have been served with the complaint, has not answered the complaint, and has never made an appearance in this matter.

B. Jurisdiction and Venue

4. This action arises under the copyright laws of the United States. 17 U.S.C. § 101, et seq. (1982). This court has subject matter jurisdiction over this action pursuant to Section 1338(a) of Title 28 of the United States Codes, and venue lies in this district under Section 1400(a) of Title 28 of the United States Codes. 28 U.S.C. §§ 1338(a), 1400(a) (1982).

C. The Copyrights at Issue

5. Plaintiffs alleged in their complaint infringement of 74 motion pictures for which plaintiffs own the copyrights. Defendants rented copies of 49 for viewing by their guests in their hotel room. In their summary judgment motion, plaintiffs omitted nine of the copyrighted motion pictures named in the complaint because they had no proof that they had in fact been infringed. As a result of disputes over ownership raised by defendants, plaintiffs withdrew their claim for eight more of the alleged copyrighted motion pictures. Defendants claim that plaintiffs had also failed to show that they owned the copyrights for at least eight more of these 74 motion pictures. In light of my decision today, this issue need not be addressed.

D. The Allegations of Copyright Infringement

6. The defendants operate the La Mancha resort in Palm Springs, California. The resort rents 50 units that it refers

to as "guest villas" and which are available in one, two or three bedroom floor plans. Each villa has its own kitchen, living room, bath, patio and most have private swimming pools.

7. There is a dispute as to whether La Mancha is a private club or a hotel. This issue does not have to be reached in light of my decision. Without deciding the issue or prejudicing the parties' arguments, concerning this issue, I will consider the La Mancha resort a hotel for the purposes of this decision.

"7A. Defendants' resort, including its guest accommodations, is unquestionably open to the public. Indeed, defendants advertise La Mancha nationwide as a 'destination resort', offer group rates and offer the La Mancha villas by the night. Moreover, to stay at La Mancha, one need only call the hotel and reserve a room or make a reservation through a travel agent. No proof of membership in the 'club' is required for such a reservation. Nor is any such proof of membership required of a guest registering at La Mancha. Upon registering, La Mancha's front desk personnel request only a credit card and driver's license.

7B. To attract members of the general public, defendants have advertised La Mancha in several prominent national and regional publications such as The New Yorker Magazine, Forbes Magazine, Los Angeles Times, Chicago Tribune, Los Angeles Magazine, San Diego Magazine and Travel & Leisure. In addition, Irwin has prepared and distributed press releases and brochures to inform the public about La Mancha."

8. Commencing in late 1981, defendants purchased videodisc players and over the course of the next few months installed them in each rental unit. One disc player is also located in the gift shop for demonstration use only. None of the videodisc players is or was located in common areas such as the lobby or restaurant of the defendants' resort.

There is no allegation or proof that the defendants ever showed movies in any of common areas at the resort.

9. Defendants purchased an inventory of videodisc movies from RCA corporation. RCA is a licensed manufacturer and distributor of the copyright movies contained on the videodiscs. Plaintiffs do not contend that defendants had obtained, rented or sold any illegal or pirated copies of the motion pictures. The videodiscs at issue were all lawfully obtained and are authorized and lawful copies of plaintiffs' motion pictures. There is also no claim that defendants retransmitted by way of cable or other means any videodisc movies to any of the rental units at their resort.

10. Guests at defendants' resort could, for a fee ranging from \$ 5.00 to \$ 7.50, rent the videodiscs, take them back to their accommodations, and watch the movie on the televisions sets and videodisc players furnished in each unit. Guests at defendants' resort could watch a rented video movie at any time and could rent as many videodisc movies as desired. The videodisc rental fee would be included on the guests' bill. Defendants advertise the availability of these discs.

11. In the fall of 1982, plaintiffs' counsel sent a letter to defendant protesting their rental of videodiscs to guest staying at defendants' resort. After an exchange of correspondence, plaintiffs filed their copyright infringement claim on April, 25, 1983.

12. Any conclusion of law stated below, to the extent that it constitutes a finding of fact, is herein incorporated by reference as an additional finding of fact.

CONCLUSIONS OF LAW

A. Issues

1. The issue raised by the complaint is one of the first impressions—whether guests at a hotel or similar accom-

modations are "publicly performing" the videodiscs when they view the videos in the rooms that they have rented. Plaintiffs argue that a hotel, even including its private bedroom accommodations, is "a place open to the public" under the copyright law, and that viewing copyrighted motion pictures on video equipment in the hotel room or similar accommodation would constitute a public performance under the copyright law.

2. Defendants argue that hotel rooms have traditionally been considered private and, therefore, would not be public places under the copyright law. Defendants contend that the purpose of renting a hotel room is to obtain short-term living accommodations while one is away from home, and not to view motion pictures. I conclude that the viewing of a motion picture in a hotel room is no different from viewing movies in a private home, which is admittedly a private use and not a public performance under the copyright law.

3. There is no issue but that the defendants have the right to rent videodisc movies. Under the first sale doctrine, any person who purchases or obtains a legitimate copy may "without authority of the copyright owner . . . sell or otherwise dispose of the possession of that copy" 17 U.S.C. § 109(a); *accord, United States v. Moore*, 604 F.2d 1228, 1232 (9th Cir. 1979). In enacting the copyright law, Congress expressly stated that "the person to whom the copy . . . is transferred is entitled to dispose of it by sale, rental, or any other means." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79, *reprinted in*, 1976 U.S. Code Cong. & Ad. News 5659, 5693. The law allows the copyright owner to set and collect a royalty when he first sells each copy of the work. Additional royalties on subsequent sales or rentals are not required under the copyright law. Defendants purchased authorized copies of the videodiscs for which plaintiffs were paid a royalty on that sale. Accordingly, defendants obtained the right to rent

the videodiscs at issue, so long as they do so not for the purpose of unauthorized public performance.

4. Defendants have raised six counterclaims which principally allege various antitrust and unfair competition practices. The validity of these claims was not raised in the summary judgment motions.

5. Defendants also raised a number of factual issues which they allege would preclude plaintiffs' summary judgment. Inasmuch as I am denying plaintiffs' summary judgment motion, these issues need not be addressed.

6. There is also no claim that defendants performed the video movies in any of the common areas of its resort. Plaintiffs also do not claim that defendants played a video movie and retransmitted it through a cable or similar system to each of the rented units. Rather, the sole issue to be decided is whether a hotel room in the defendants' facility is "a place open to the public" under the copyright law and whether the viewing of video movies in such accommodation is public performance.

B. A Place Open to the Public Under the Copyright Laws

7. Under the copyright law, a movie is publicly performed if viewed either "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances gathered . . ." 17 U.S.C. § 101 (1982). The record indicates that the movie viewed in the accommodations at defendants' resort are limited to "a normal circle of a family and its social acquaintances." As a result, in order for plaintiffs to prevail, the rental units at defendants' resort must be considered "a place open to the public."

8. Private places and private uses of video movies are not limited to homes.

C. Private Nature of Hotel Rooms

9. In order for plaintiffs to prevail, it is necessary to rule, at a minimum, that all hotel rooms are public places under the copyright laws. Hotel rooms, however, have traditionally been considered private places under other laws. A hotel room is subject to the Fourth Amendment protection under the United States Constitution because guests at hotels have a reasonable expectation of privacy while they are in their rented room. *Hoffa v. United States*, 385 U.S. 293, 301, 87 S. Ct. 408 (1966).

10. Similarly, it is also well established under the common law that a guest at a hotel has a right of privacy to the peaceful enjoyment of the accommodation. *People v. Vaughn*, 65 Cal.App.2d 84, 150 P.2d 964, 976-68 (1944). In fact, an innkeeper is liable for damages if he or his employees unjustifiably enter the guest's room. *Frewen v. Page*, 280 Mass. 499, 131 N.E. 475 (1921). Although not binding, these rules provide guidance on the private nature of hotel rooms.

11. When occupied, a hotel room is private and the occupant expects and is entitled to such privacy. The purpose of renting a hotel room is to obtain living accommodations whether short-term or long-term. In this respect, hotel rooms are no different from private homes. Similarly, viewing movies in a hotel room would be an incidental form of entertainment, and is no different from viewing movies in a home. Home use of videos is admittedly a private and not a public performance.

12. For these reasons, a hotel room is not a place open to the public under the copyright laws and the viewing of video movies in such accommodations is not a public performance under the copyright laws. See 2 *Nimmer on Copyright* § 8.18[C][1][d] (1985).

D. Redd Horne and Aveco Cases

13. This decision is not contrary to the recent decisions in the Third Circuit in *Columbia Pictures Indus., Inc. v.*

Redd Horne, Inc., 568 F.Supp. 494 (W.D. Pa. 1983), *aff'd*, 749 F.2d 154, (3d Cir. 1984) and *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F.Supp. 315 (M.D. Pa. 1985). The defendants in both those cases operated video stores in which they set up small rooms in the back for the purpose of viewing movies. For a fee, customers could rent the video movies and view them in these small viewing rooms. The courts in those cases considered those viewing rooms to be mini-movie theaters and thus, like a movie theater, public places. As a result, viewing movies in these public mini-theaters was a public performance.

14. The principal and sole purpose of the viewing rooms in the Redd Horne and Aveco cases was to watch movies. In contrast, a hotel is a place to live while away from one's permanent home. The primary or even a principal reason of renting a hotel room is not to view movies. At best, the viewing of movies in a hotel room is incidental entertainment, no different from viewing movies in the privacy of one's home.

E. Conclusion

15. The plaintiffs, as a matter of law, cannot prevail on their copyright claims in this case. Hotel rooms, and thus the units rented at defendants' resort, are not places open to the public under the copyright law, and viewing copyrighted motion pictures on video equipment in a hotel room is not public performance under the copyright law.

16. Defendants are therefore entitled to summary judgment on these copyright issues. There are no genuine issues of material fact which would preclude entry of such a judgment in favor of the defendants.

17. Any finding of fact stated above, to the extent that it constitutes a conclusion of law, is hereby incorporated by reference as an additional conclusion of law.

ORDER

1. Upon consideration of the cross-motions for summary judgment, the briefs filed with regard to those motions, and the argument of counsel, the court has determined that there is no genuine issue of material fact which precludes summary judgment for the defendants on the issues raised in the complaint and that the defendants are entitled to summary judgment on these issues as a matter of law pursuant to Fed. R. Civ. P. 56(a).

2. It is hereby ordered, adjudicated, and decreed that the rental by defendants of videodiscs of plaintiffs' copyrighted films to members and guests at defendants resort for the purpose of permitting them to view those motion pictures in the units they have rented does not violate plaintiffs' exclusive rights under Section 106 of the copyright law (17 U.S.C. § 106) to perform publicly and to authorize the public performance of such motion pictures.

3. The claims raised in plaintiffs' complaint are, therefore, dismissed and final judgment shall be entered in favor of defendants on these claims. Plaintiffs' motion for Summary Judgment and Permanent Injunction is denied.

4. Plaintiffs shall pay the defendants' cost incurred in defending this action.

5. The clerk shall enter a judgment in accordance herewith as a final judgment pursuant to Fed. R. Civ. P. 54(b), the court expressly determining that there is no just reason for delay.

The findings and conclusions, although prepared by counsel, are in substantial complete accord with the opinion and decision that I rendered orally at the conclusion of the hearing on the cross motions.

Dated: JAN. 13 1986

/s/ WILLIAM P. GRAY

HON. WILLIAM P. GRAY
United States District Court
Central District of California

Proposed by:

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and Kenneth F. Irwin

APPENDIX G

15 U.S.C. § 1:

Trusts, etc., in restraint of trade illegal; penalty

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

15 U.S.C. § 2:

Monopolizing trade a felony; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding \$10,000,000 if a corporation, or, if any other person, \$350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

APPENDIX H

Cal. Bus. & Prof. Code § 16720 (West 1987):

§ 16720. Trust

A trust is a combination of capital, skill or acts by two or more persons for any of the following purposes:

- (a) To create or carry out restrictions in trade or commerce.
- (b) To limit or reduce the production, or increase the price of merchandise or of any commodity.
- (c) To prevent competition in manufacturing, making, transportation, sale or purchase of merchandise, produce or any commodity.
- (d) To fix at any standard or figure, whereby its price to the public or consumer shall be in any manner controlled or established, any article or commodity of merchandise, produce or commerce intended for sale, barter, use or consumption in this State.

(e) To make or enter into or execute or carry out any contracts, obligations or agreements of any kind or description, by which they do all or any or any combination of any of the following:

(1) Bind themselves not to sell, dispose of or transport any article or any commodity or any article of trade, use, merchandise, commerce or consumption below a common standard figure, or fixed value.

(2) Agree in any manner to keep the price of such article, commodity or transportation at a fixed or graduated figure.

(3) Establish or settle the price of any article, commodity or transportation between them or themselves and others, so as directly or indirectly to preclude a free and unrestricted competition among themselves, or any purchasers or consumers in the sale or transportation of any such article or commodity.

(4) Agree to pool, combine, or directly or indirectly unite any interests that they may have connected with the sale or transportation of any such article or commodity, that its price might in any manner be affected.

Cal. Bus. & Prof. Code § 16726 (West 1987):

§ 16726. Trusts against public policy

Except as provided in this chapter, every trust is unlawful, against public policy and void.

FEB 19 1992

OFFICE OF THE CLERK

In The
Supreme Court of the United States

October Term, 1991

PROFESSIONAL REAL ESTATE
 INVESTORS, INC., ET AL.,

Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC., ET AL.,

Respondents.

Petition For Writ Of Certiorari To The United States
 Court Of Appeals For The Ninth Circuit

BRIEF OF RESPONDENTS IN OPPOSITION

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Bros. Inc. and CBS Inc.

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COUNTERSTATEMENT OF QUESTION PRESENTED

Whether the court of appeals correctly ruled that, under this Court's holdings in *California Motor Transport Co. v. Trucking Unlimited* and its progeny, a lawsuit brought with probable cause — which indisputably raised very close federal copyright issues of first impression — is immune from antitrust liability under the *Noerr-Pennington* doctrine.

LIST OF CORPORATE PARENTS AND SUBSIDIARIES REQUIRED BY RULE 29.1

The following is a list of publicly traded parent corporations, and of non-wholly owned subsidiaries,* of the respondents:

1. Columbia Pictures Industries, Inc.

Parent: Sony Corporation

Non-Wholly Owned Subsidiaries:

AFRAM, Inc.

American Motion Picture Export Company, Ltd.

EPS Entertainment Programming Services Ltd.

2. Embassy Pictures

Embassy Pictures ("Embassy") was a partnership that was dissolved in December 1985. On information and belief Embassy's liabilities were assumed either by NewEmbassy Pictures Inc., an affiliate of DeLaurentiis Entertainment Group, Inc., or by ELP Communications, a joint venture owned by affiliates of Columbia Pictures Industries, Inc.

* Only first tier subsidiaries are listed.

LIST — Continued

3. Paramount Pictures Corporation

Parent: Paramount Communications, Inc.

Non-Wholly Owned Subsidiaries:

Agnes Limited Partnership, The

Entertainment Tonight

All Is Forgiven Productions

America Today

MacGyver Productions

PPC Space Production

Taking Advantage

One and Only Joint Venture, The (J.V.)

Long Road Productions

Newdon Productions

4. Twentieth Century Fox Film Corporation

Parent: The News Corporation Limited

Non-Wholly Owned Subsidiaries:

Ansett Worldwide Aviation, Inc.

Combined Broadcasting Inc.

(Grant Broadcasting)

EPS Entertainment Programming Services Ltd.

Produzione Artistiche Internazionali

Distribuidora Difox, C.A.

Twentieth Century Fox Italy S.P.A., Inc.

Les Productions Fox Europa S.A.

Cinemas Fox-Serveriano Ribeiro Ltd.

Columbia-Fox O.E.

Fox/Col Film Distributors Inc.

Hoyts Fox Columbia TriStar Films Pty. Ltd.

Puerto Rican Film Service

British Movietonenews Ltd.

LIST — Continued

FoxVideo (Holdings) Ltd.
 FoxVideo Ltd.
 U.K. Film Distribution Ltd.

5. Universal City Studios, Inc.

Parent: Matsushita Electric Industrial Co., Ltd.

Non-Wholly Owned Subsidiaries:

None

6. Walt Disney Productions

Walt Disney Productions, now known as The Walt Disney Company, a publicly traded corporation, has no parent company and no non-wholly owned subsidiaries.

7. Warner Bros. Inc.

Parent: Time-Warner, Inc.

Non-Wholly Owned Subsidiaries:

AFRAM Films, Inc.
 Motion Picture Export Association of America, Inc.
 American Motion Picture Export Company, Inc.
 Chatham Music Corporation
 Lombardo Music, Inc.
 Rodart Music Corporation
 Shubert Music Publishing Corporation
 Vernon Music Corporation

LIST — Continued8. CBS Inc.

CBS Inc., a publicly traded corporation, has no parent company and has the following non-wholly owned subsidiaries:

Bala Cynwyd Associates
 The CBS/FOX Company
 CBS/FOX Video (Holdings) Ltd.
 CBS/FOX Video (New Zealand) Limited
 CBS/FOX Video (Italia) S.p.A.
 CBS Gramophone Records & Tapes (India) Ltd.
 CBS/MTM Company
 Meadowlands Parkway Associates
 Network Television Association

TABLE OF CONTENTS

	Page
COUNTERSTATEMENT OF QUESTION PRESENTED	i
LIST OF CORPORATE PARENTS AND SUBSIDIARIES REQUIRED BY RULE 29.1	ii
COUNTERSTATEMENT OF THE CASE	1
REASONS FOR DENYING THE WRIT	5
I. THE COURT OF APPEALS CORRECTLY APPLIED THE PRINCIPLES ESTABLISHED IN CALIFORNIA MOTOR TRANSPORT AND ITS PROGENY IN CONCLUDING THAT, BECAUSE RESPONDENTS' COPYRIGHT ACTION WAS BROUGHT WITH PROBABLE CAUSE, IT IS IMMUNE FROM ANTITRUST LIABILITY UNDER THE NOERR-PENNINGTON DOCTRINE	6
II. REVIEW OF THE COURT OF APPEALS' OPINION IS NOT WARRANTED BY ANY INCONSISTENCY OR CONFUSION AMONG THE CIRCUITS	11
CONCLUSION	18
APPENDIX	i

TABLE OF AUTHORITIES

	Page(s)
CASES	
<i>Adolph Coors Co. v. A&S Wholesalers, Inc.</i> , 561 F.2d 807 (10th Cir. 1977)	13
<i>Aircapital Cablevision, Inc. v. Starlink Communications Group, Inc.</i> , 634 F.Supp. 316 (D. Kan. 1986)	15
<i>Alexander v. National Farmers Organization</i> , 687 F.2d 1173 (8th Cir. 1982), cert. denied, 461 U.S. 937 (1983)	12, 13, 15
<i>Allied Tube & Conduit Corp. v. Indian Head, Inc.</i> , 486 U.S. 492 (1988)	9, 16, 17, 18
<i>Bill Johnson's Restaurants, Inc. v. N.L.R.B.</i> , 461 U.S. 731 (1983)	6, 7, 8, 10, 11
<i>California Motor Transport Co. v. Trucking Unlimited</i> , 404 U.S. 508 (1972)	passim
<i>Chest Hill Co. v. Guttman</i> , 1981-2 Trade Cas. (CCH) ¶64,417 (S.D. Ohio 1981)	12
<i>City of Columbia v. Omni Outdoor Advertising, Inc.</i> , 111 S.Ct. 1344 (1991)	6, 7, 9, 10
<i>Columbia Pictures Industries, Inc. v. Redd Horne, Inc.</i> , 749 F.2d 154 (3rd Cir. 1984)	12
<i>Coastal States Marketing, Inc. v. Hunt</i> , 694 F.2d 1358 (5th Cir. 1983)	15
<i>Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.</i> , 365 U.S. 127 (1961)	1, 4, 6
<i>Eden Hannon & Co. v. Sumitomo Trust & Banking Co.</i> , 914 F.2d 556 (4th Cir. 1990), cert. denied, 111 S.Ct. 1414 (1991)	12

TABLE OF AUTHORITIES — Continued
Page(s)

<i>Edward B. Marks Music Corp. v. Colorado Mag- netics, Inc.</i> , 497 F.2d 285 (10th Cir. 1974), <i>cert. denied</i> , 419 U.S. 1120 (1975)	13
<i>Federal Prescription Service, Inc. v. American Pharmaceutical Assn.</i> , 663 F.2d 253 (D.C. Cir. 1981), <i>cert. denied</i> , 455 U.S. 928 (1982)	13
<i>G. Heileman Brewing Co. v. Anheuser-Busch, Inc.</i> , 676 F.Supp. 1436 (E.D. Wisc. 1987), <i>aff'd. on other grounds</i> , 873 F.2d 985 (7th Cir. 1989)	17
<i>Greenwood Utilities Commission v. Mississippi Power Co.</i> , 751 F.2d 1484 (5th Cir. 1985)	16, 18
<i>Grip-Pak, Inc. v. Illinois Tool Works, Inc.</i> , 694 F.2d 466 (7th Cir. 1982), <i>cert. denied</i> , 461 U.S. 958 (1983)	14, 15
<i>Hydro-Tech Corp. v. Sundstrand Corp.</i> , 673 F.2d 1171 (10th Cir. 1982)	13
<i>In Re Burlington Northern, Inc.</i> , 822 F.2d 518 (5th Cir. 1987), <i>cert. denied</i> , 484 U.S. 1007 (1988)	15, 16, 17, 18
<i>Juster Associates v. City of Rutland, Vermont</i> , 901 F.2d 266 (2d Cir. 1990)	12
<i>Landmarks Holding Corp. v. Bermant</i> , 664 F.2d 891 (2d Cir. 1981)	12
<i>MCI Communications v. American Tel. & Tel. Co.</i> , 708 F.2d 1081 (7th Cir. 1983), <i>cert. denied</i> , 464 U.S. 891 (1983)	14
<i>McCray v. New York</i> , 461 U.S. 961 (1983)	17, 18
<i>Omni Resource Development Corp. v. Conoco, Inc.</i> , 739 F.2d 1412 (9th Cir. 1984)	8, 9

TABLE OF AUTHORITIES — Continued
Page(s)

<i>Opdyke Development Co. v. City of Detroit</i> , 883 F.2d 1265 (6th Cir. 1989)	7, 14
<i>Otter Tail Power Company v. United States</i> , 410 U.S. 366 (1973)	7, 9, 11
<i>Premier Electrical Construction Co. v. National Electrical Contractors Assn., Inc.</i> , 814 F.2d 358 (7th Cir. 1987)	14, 15
<i>Razorback Ready Mix Concrete Co., Inc. v. Weaver</i> , 761 F.2d 484 (8th Cir. 1985)	12
<i>Rickards v. Canine Eye Registration Founda- tion</i> , 783 F.2d 1329 (9th Cir. 1986), <i>cert. denied</i> , 479 U.S. 851 (1986)	10
<i>Ross v. Bremer</i> , 1982-2 Trade Cas. (CCH) ¶64,746 (W.D. Wash. 1982)	14
<i>St. Joseph's Hospital, Inc. v. Hospital Corp. of America</i> , 795 F.2d 948 (11th Cir. 1986)	13
<i>State of South Dakota v. Kansas City Southern Industries, Inc.</i> , 880 F.2d 40 (8th Cir. 1989), <i>cert. denied</i> , 493 U.S. 1023 (1990)	14
<i>United Mine Workers v. Pennington</i> , 381 U.S. 657 (1965)	1, 6
<i>Vendo Co. v. Lektro-Vend Corp.</i> , 433 U.S. 623 (1977)	7, 8, 9, 11
<i>Video Views, Inc. v. Studio 21, Ltd.</i> , 925 F.2d 1010 (7th Cir. 1991), <i>cert. denied</i> , 112 S.Ct. 181 (1991)	2
<i>Westmac, Inc. v. Smith</i> , 797 F.2d 313 (6th Cir. 1986), <i>cert. denied</i> , 479 U.S. 1035 (1987)	14, 15

TABLE OF AUTHORITIES — Continued
Page(s)

<i>Winterland Concessions Co. v. Trela</i> , 735 F.2d 257 (7th Cir. 1984)	14
--	----

CONSTITUTION

United States Constitution, First Amendment ...	6, 8
---	------

STATUTES

Sherman Act §§1 and 2 (15 U.S.C. §§1 and 2)	1
---	---

RULES

F.R.Civ.P. 56(f)	3
------------------------	---

TREATISES

1 P. Goldstein, <i>Copyright: Principles, Law and Practice</i> , (1989) §5.7.2.2 at 616-19	2
2 M. & D. Nimmer, <i>Nimmer on Copyright</i> , (1988) §8.14[C] at 8-141-146	2
R. Stern, E. Gressman and S. Shapiro, <i>Supreme Court Practice</i> , 6th Ed. (1986) 201	17

LAW REVIEW ARTICLES

Balmer, <i>Sham Litigation and the Antitrust Laws</i> , 29 Buffalo L.Rev. 39 (1980)	11
---	----

MISCELLANEOUS

Breen, <i>Hotel Movie Renting Gets Green Light</i> , Hotel and Motel Marketing Magazine, March 17, 1986, at 55	2
--	---

TABLE OF AUTHORITIES — Continued
Page(s)

<i>Chiang, New Ruling Muddies Video Copyright Law</i> , L.A. Daily Journal, Dec. 27, 1985, at 3	2
---	---

<i>Copyrights — Hotel Rooms Are Not Public Places Under Copyright Act</i> , 31 Pat. Trademark & Copyright J. (BNA) No. 764, at 223 (Jan. 23, 1986)	2
--	---

<i>Kuyper Leaving MGM/UA for New Vidthape Venture</i> , Daily Variety, Jan. 14, 1986 at 1	2
---	---

<i>Rental of Videodisc movies to resort guests was not a public performance in violation of motion picture studios' copyright interests, rules Federal District Court in California</i> , Entertainment Law Reporter, Vol. 7, No. 9 at 10 (February, 1986)	2
--	---

<i>Selsky, The Year in Review</i> , Los Angeles Lawyer, April 1986, at 14, 20	2
---	---

<i>Studios Lose Video Case</i> , T.V. Digest, Jan. 6, 1986 at 14	2
--	---

<i>The Copyright Law Journal</i> , Vol. II, No. 9 at 102-103 (May, 1986)	2
--	---

<i>Watching Rented Movies In Hotel Rooms Produces No Violation Of Copyright Act</i> , 54 L.W. 1118, 2383, Feb. 4, 1986	2
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COUNTERSTATEMENT OF THE CASE

The opinion of the court of appeals is neither remarkable nor unique. Applying antitrust principles first established by this Court in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), the court of appeals merely reaffirmed that, where a lawsuit is not baseless — indeed, where, as here, the suit raises difficult federal copyright issues of first impression — it is immune from antitrust attack under the *Noerr-Pennington* doctrine¹ even if plaintiffs' motives for bringing the suit are alleged to have been improper. This case thus involves no unsettled question of federal law. It simply involves a routine application of well accepted antitrust principles that this Court has repeatedly confirmed in several decisions over the last twenty years.

Respondents produce and distribute copyrighted motion pictures. In 1983, they brought a copyright infringement action against petitioners, the owners of a resort hotel called La Mancha Private Club and Villas ("La Mancha"), alleging that petitioners were violating the exclusive public performance rights in respondents' copyrighted motion pictures by renting videodiscs of those pictures to La Mancha's guests for viewing on disc players installed in La Mancha's guest rooms. (Appendix to Petition for Writ of Certiorari ("App.") 4a-5a, 40a). Petitioners denied liability and counterclaimed for alleged violations of Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 and 2). (App. 5a.).² In support

¹ *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

² The counterclaims also alleged violations of state unfair competition laws. (*Id.*) The Petition for Writ of Certiorari, however, does not seek review of any issues relating to petitioners' state law claims.

of their antitrust claims, petitioners asserted that respondents' copyright infringement suit was a sham, brought for the purpose of monopolizing and restraining trade. (App. 5a).

In January 1986, the district court, noting that respondents' copyright lawsuit raised a "very close" issue³ "of first impression",⁴ entered a summary judgment dismissing the suit. (App. 38a). The district court's decision drew heavy press coverage,⁵ as well as criticism from leading copyright scholars.⁶ Nevertheless, in January 1989, after two appellate hearings and two years of deliberation, the Ninth Circuit, observing that in this case "technology has . . . leapfrogged statutory schemes", affirmed the district court's judgment. (App. 5a; 27a n.*, 36a-37a).⁷

³ March 24, 1986 Reporters Transcript 3 (Appendix 1 hereto).

⁴ App. 44a (¶1).

⁵ See e.g., *The Copyright Law Journal*, Vol. II, No. 9 at 102-103 (May, 1986); Selsky, *The Year in Review*, Los Angeles Lawyer, April 1986, at 14, 20; Breen, *Hotel Movie Renting Gets Green Light*, Hotel and Motel Marketing Magazine, March 17, 1986, at 55; *Watching Rented Movies In Hotel Rooms Produces No Violation Of Copyright Act*, 54 L.W. 1118, 2383, Feb. 4, 1986; *Rental of Videodisc movies to resort guests was not a public performance in violation of motion picture studios' copyright interests, rules Federal District Court in California*, Entertainment Law Reporter, Vol. 7, No. 9 at 10 (February, 1986); *Copyrights-Hotel Rooms Are Not Public Places Under Copyright Act*, 31 Pat. Trademark & Copyright J. (BNA) No. 764, at 223 (Jan. 23, 1986); *Kuyper Leaving MGM/UA for New Vidthape Venture*, Daily Variety, Jan. 14, 1986 at 1; *Studios Lose Video Case*, T.V. Digest, Jan 6, 1986 at 14; Chiang, *New Ruling Muddies Video Copyright Law*, L.A. Daily Journal, Dec. 27, 1986, at 3.

⁶ 1 P. Goldstein, *Copyright: Principles, Law and Practice*, § 5.7.2.2 at 616-19 (1989); 2 M. & D. Nimmer, *Nimmer on Copyright*, § 8.14[C] at 8-141-146 (1988).

⁷ The Ninth Circuit's opinion also drew criticism. See *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1020 (7th Cir. 1991), cert. denied, 112 S.Ct. 181 (1991).

After remand, respondents moved for summary judgment on petitioners' antitrust counterclaims, contending that, because respondents' copyright suit was brought with probable cause (i.e., it was not baseless), as a matter of law the suit could not be deemed a sham undeserving of *Noerr-Pennington* protection. In opposing the motion, petitioners never disputed that the copyright infringement action was brought with probable cause. (App. 11a, 15a). Instead, relying on F.R.Civ.P. 56(f), petitioners requested a continuance to permit them to conduct discovery concerning respondents' motives for bringing the copyright action. (App. 17a-18a).

On March 2, 1990, the district court, refusing to permit further discovery, granted respondents' summary judgment motion, ruling that respondents' copyright infringement action "was not a sham and that, under the *Noerr-Pennington* doctrine, the counterclaim must be dismissed." (App. 23a). The court reasoned:

It was clear from the manner in which the [copyright] case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the Court of Appeals had trouble with it as well. I find that there was probable cause for bringing the action . . .

(App. 24a).

In response to petitioners' request for discovery regarding respondents' motives for bringing the copyright action, the district court ruled that where, as here, an action is brought with probable cause, it is immune from antitrust liability under *Noerr-Pennington* even if it was brought for improper purposes. (App. 24a). Discovery regarding respondents' motives was therefore irrelevant. (See App. 17a-18a).

On September 24, 1991, the court of appeals affirmed. The court, citing *California Motor Transport*,

first held that, where there have been no misrepresentations in the adjudicatory process, "a suit brought with probable cause does not fall within the sham exception to the *Noerr-Pennington* doctrine." (App. 11a, 16a). The court then ruled that, because petitioners did not allege that respondents' copyright action involved any misrepresentation, the district court's unchallenged finding that the copyright action was brought with probable cause rendered petitioners' sham litigation claim deficient as a matter of law. (App. 11a, 15a). The court explained:

Because the sham exception to the *Noerr-Pennington* rule may have a chilling effect on those who seek redress in the courts, we have held that the exception should be applied with caution. [citation omitted]. We see no basis for holding that a suit brought with probable cause in fact and law may be a sham. Such a holding would erode the first amendment right to petition that is the basis for the *Noerr-Pennington* doctrine, see *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 137-38 (1961), by imposing the risk of treble damages for initiating a suit based on a well-founded, but untested, legal theory.

In the present case, the Movie Studios' copyright infringement suit presented an issue of first impression both at the district court level and in this circuit. The first amendment right of petition is particularly strong in such a case. The district court concluded that the lawsuit was brought with probable cause and presented issues that were difficult to resolve. This finding, which PRE does not challenge,

precludes the application of the sham exception as a matter of law. [footnote omitted]

(App. 14a-15a).⁸

In rejecting petitioners' sham litigation claim, the court of appeals carefully examined, and expressly followed, this Court's decisions in *California Motor Transport* and its progeny. (App. 11a, 13a n. 7, 14a, 16a n. 10 and accompanying text). The sole issue presented by the petition is whether the court of appeals properly applied the principles established in those decisions to the facts of this case. For the reasons set forth below, this issue does not warrant this Court's review.

REASONS FOR DENYING THE WRIT

Repeating the plea of virtually every dissatisfied litigant that petitions this Court for review, petitioners in this case assert that review of the court of appeals' opinion is necessary to correct "clear error" and to "provide uniformity among the circuits." (Petition For Writ Of Certiorari ("Pet.") 8). Petitioners are wrong. The court of appeals' opinion is consistent in all respects with the decisions of this Court and creates no inter-circuit conflict meriting review. The Petition for Writ of Certiorari should therefore be denied.

⁸ In addition to their sham litigation claim, petitioners further alleged in the lower courts that respondents violated the Sherman Act by purportedly engaging in other anticompetitive conduct external to the copyright infringement suit. (App. 5a, 7a-8a). Petitioners, however, failed to show that any of this other alleged misconduct caused them to suffer antitrust injury, and the lower courts therefore ruled that petitioners' allegations of additional misconduct could not, as a matter of law, support petitioners' antitrust claims. (App. 9a-10a). Petitioners do not challenge that ruling in this Court.

I.

THE COURT OF APPEALS CORRECTLY APPLIED THE PRINCIPLES ESTABLISHED IN CALIFORNIA MOTOR TRANSPORT AND ITS PROGENY IN CONCLUDING THAT, BECAUSE RESPONDENTS' COPYRIGHT ACTION WAS BROUGHT WITH PROBABLE CAUSE, IT IS IMMUNE FROM ANTITRUST LIABILITY UNDER THE NOERR-PENNINGTON DOCTRINE

As both the district court and court of appeals recognized, petitioners' fundamental problem is that respondents' copyright infringement action was brought with probable cause, *i.e.*, it was not baseless (App. 15a, 24a), and "a suit brought with probable cause does not fall within the sham exception to the *Noerr-Pennington* doctrine". (App. 16a). Petitioners do not challenge the lower courts' determination that the copyright action was brought with probable cause. Instead, they contend that even a meritorious suit may be deemed a sham undeserving of *Noerr-Pennington* immunity if the suit was brought with improper subjective intent, and that the Ninth Circuit erred by holding otherwise. (Pet. 7-8). This contention, however, directly conflicts with this Court's decisions as to the strict limits of the sham exception.

Commencing with *Noerr*, the Court has consistently held that the First Amendment right to petition government immunizes joint efforts to induce lawful government action — including petitions to the courts — from antitrust liability.⁹ As petitioners acknowledge, the Court has also uniformly held that this broad, constitutionally based immunity can only be lost in those narrow circumstances where the petitioning activity is

⁹ *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S.Ct. 1344, 1353 (1991); *Bill Johnson's Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731, 741 (1983); *California Motor Transport*, 404 U.S. at 509-10; *Pennington*, 381 U.S. at 669-70; *Noerr*, 365 U.S. at 137-38.

deemed a "mere sham."¹⁰ The Court, moreover, has repeatedly made clear that, to bring the filing of a lawsuit within the sham exception, an antitrust plaintiff must show both that the suit was filed for an improper purpose and also that the suit was baseless or that the antitrust defendant committed fraud or other abuses in the judicial process.

In *California Motor Transport* — the Court's first decision applying the sham exception to court petitions — the Court held that litigation brought for an anti-competitive purpose would fall within the sham exception if, in addition to being brought with wrongful intent, the litigation was part of a "pattern of baseless, repetitive claims" or involved misrepresentations or other abuses (such as perjury, bribery or patent fraud) in the adjudicatory process. 404 U.S. at 511-13. Similarly, in *Otter Tail Power Company v. United States*, 410 U.S. 366 (1973), the Court held that use of the judicial process for the improper purpose of suppressing competition would come within the sham exception if that improper purpose were "evidenced by repetitive lawsuits carrying the hallmark of *insubstantial* claims." *Id.* at 380 (emphasis added).

In the nineteen years since *Otter Tail* the Court and its individual Justices have consistently adhered to the notion that, to be deemed a sham subject to potential antitrust liability, a lawsuit must either be baseless or involve fraud or other abuses in the adjudicatory process. For example, in *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623 (1977) — a 3-2-4 decision¹¹ — six Justices

¹⁰ *City of Columbia*, 111 S.Ct. at 1354-55 (quoting *Noerr*, 365 U.S. at 144); *Bill Johnson's Restaurants*, 461 U.S. at 741; *California Motor Transport*, 404 U.S. at 511-13. See *Opdyke Development Co. v. City of Detroit*, 883 F.2d 1265, 1273 (6th Cir. 1989) ("the sham lawsuit exception to the *Noerr-Pennington* doctrine is a 'narrow one'").

¹¹ The plurality opinion in *Vendo* did not discuss the circumstances under which a lawsuit may be deemed a "sham" and, hence, a potential antitrust violation. See 433 U.S. at 635 n. 6.

of the Court reaffirmed that a lawsuit must be baseless, or involve misrepresentations or other abuses in the judicial process, to lose *Noerr-Pennington* immunity. See 433 U.S. at 644 n. *. (Blackmun, J., concurring) (under *California Motor Transport*, a state court lawsuit may be enjoined as an antitrust violation only upon a showing of "a pattern of baseless, repetitive claims or some equivalent showing of grave abuse of the state courts"); *id.* at 652, 662 (Stevens, J., dissenting) (under *California Motor Transport*, "frivolous claims" — such as a single baseless lawsuit or suits based on patents obtained by fraud — may be enjoined as antitrust violations).¹²

Similarly, in *Bill Johnson's Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731 (1983), the Court, applying the principles of *Noerr-Pennington's* antitrust sham exception to actions governed by the National Labor Relations Act, confirmed that lawsuits brought with a reasonable basis in fact and law enjoy absolute First Amendment immunity under federal law and that only "insubstantial" or "baseless" claims may lose that immunity. 461 U.S. at 742-44.¹³ In so holding, the Court expressly adopted the antitrust principles announced in *California Motor Transport*, stating that it would "follow a similar course under the NLRA". 461 U.S. at 744. See also *Omni Resource Development Corp.*

¹² In his dissent in *Vendo*, Justice Stevens also observed that a state court action to enforce a restrictive covenant valid under state law, but "plainly violative of the Sherman Act", should also be enjoined as an antitrust violation. 433 U.S. at 652-53, 663-64. No effort to enforce such a restrictive covenant, however, was involved in the federal copyright infringement suit at issue here.

¹³ Based on these immutable concepts, the Court held in *Bill Johnson's Restaurants* that the National Labor Relations Board "may not halt the prosecution of a state-court lawsuit, regardless of the plaintiff's motive, unless the suit lacks a reasonable basis in fact or law. Retaliatory motive and lack of reasonable basis are both essential prerequisites to the issuance of a cease-and-desist order against a state suit." 461 U.S. at 748-49 (emphasis added).

v. Conoco, Inc., 739 F.2d 1412 (9th Cir. 1984) (Kennedy, J.).¹⁴

Ignoring completely this Court's opinions in *Otter Tail* and *Vendo* (and the Court's discussion in *California Motor Transport* of baseless or fraudulent suits as the hallmarks of sham litigation), petitioners suggest that the Court's recent decisions in *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S.Ct. 1344 (1991), and *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988), establish that an antitrust defendant's motive for initiating and prosecuting petitioning activity is the sole criterion for determining whether the petitioning activity is a sham. (Pet. 12-13). Petitioners' reading of *City of Columbia* and *Allied Tube* is erroneous. Although both cases made clear that an antitrust plaintiff must demonstrate a defendant's wrongful intent to prevail on a sham petitioning claim, neither case held that improper motive is, by itself, sufficient to render the petitioning activity a sham. To the contrary, in each of these cases the Court once again indicated that baselessness is an essential prerequisite for a finding of sham. See *City of Columbia*, 111 S.Ct. at 1354 ("A classic example [of the sham exception] is the filing of *frivolous* objections to the license application of a competitor, with no expectation of achieving denial of the license but simply in order to impose expense and delay." (emphasis added)); *Allied Tube*, 486 U.S. at 502 (successful petitioning activity — which, as the Ninth Circuit observed (App. 13a), is obviously based on probable cause — "certainly cannot be characterized as a sham").

¹⁴ In *Omni Resource*, Judge Kennedy stated: "The usual example given for a sham suit is one which is part of a pattern of *baseless* and repeated claims. (citing *Otter Tail*). When the antitrust plaintiff challenges one suit and not a pattern, a finding of sham *requires* not only that the suit is *baseless*, but also that it has other characteristics of grave abuse" (citing *Vendo*, 433 U.S. at 644 n. * (concurring opinion)). 739 F.2d at 1413-14 (emphasis added).

Despite this unbroken line of Supreme Court decisions, petitioners contend that the Ninth Circuit erred by refusing to permit further discovery on the issue whether respondents intended to disadvantage petitioners through the litigation process (rather than through the outcome of the process).¹⁵ Petitioners are wrong. For, as *California Motor Transport* and its progeny make clear, a mere improper motive, no matter how venal, is insufficient to render a *non-baseless* lawsuit, involving no fraud or other abuses in the judicial process, a "mere sham" subject to potential antitrust liability. Since respondents' copyright infringement action involved no fraud or other abuses in the judicial process and was indisputably brought with probable cause — and hence was not baseless — an examination of respondents' motives in bringing the action was, as the Ninth Circuit properly ruled, unnecessary and irrelevant.¹⁶ The Ninth Circuit's refusal to permit further discovery regarding respondents' motives for bringing their copyright action therefore provides no basis for review.

Petitioners also contend that the court of appeals erred in applying the reasoning underlying the Court's interpretation of the National Labor Relations Act in *Bill Johnson's Restaurants* to the antitrust issues in

¹⁵ Pet. 8-18. See *City of Columbia*, 111 S.Ct. at 1354 ("The 'sham' exception to *Noerr* encompasses situations in which persons use the governmental process — as opposed to the outcome of that process — as an anticompetitive weapon." (emphasis in original)).

¹⁶ The Ninth Circuit did not, as petitioners assert (Pet. 19), "completely reject" inquiry into intent in cases involving the sham exception. It merely held that examination of subjective intent is not necessary in those cases where the allegedly sham lawsuit was indisputably brought with probable cause and involved no fraud on the court. (App. 11a, 18a). Compare *Rickards v. Canine Eye Registration Foundation*, 783 F.2d 1329, 1334 (9th Cir. 1986), cert. denied, 479 U.S. 851 (1986) (baseless lawsuit brought with "anticompetitive motivation" held a sham subject to antitrust liability).

this case. (Pet. 13-17). This contention lacks merit. Although *Bill Johnson's Restaurants* arose in a labor law context, its holding — that to be condemned under federal labor law a suit must be both baseless and brought for an improper purpose — is in complete harmony with the Court's opinions in *California Motor Transport* and *Otter Tail* and the opinions of Justices Blackmun and Stevens in *Vendo*. Indeed, as noted above, the Court expressly based its holding in *Bill Johnson's Restaurants* on its discussion in *California Motor Transport* of the antitrust sham exception. 461 U.S. at 744.¹⁷ That the court of appeals relied, in part, on this Court's decision in *Bill Johnson's Restaurants* (which, in turn, reaffirmed the antitrust principles announced in *California Motor Transport*) thus provides no basis for review of the lower court's proper application of the sham exception in this case.

II.

REVIEW OF THE COURT OF APPEALS' OPINION IS NOT WARRANTED BY ANY INCONSISTENCY OR CONFUSION AMONG THE CIRCUITS

Disregarding this Court's well-established standards for determining when a lawsuit may fall within the sham exception (see § I., *supra*), petitioners assert that review of the court of appeals' decision is necessary to secure uniformity among the circuits as to the standards under which a lawsuit may be deemed a sham. (Pet. 18-26). According to petitioners, "[t]he standards

¹⁷ *Bill Johnson's Restaurants* also relied on a commentator's remarks regarding the antitrust sham exception to *Noerr-Pennington*. See 461 U.S. at 743 ("The first amendment interests involved in private litigation . . . are not advanced when the litigation is based on intentional falsehoods or on knowingly frivolous claims. Furthermore, since sham litigation by definition does not involve a bona fide grievance, it does not come within the first amendment right to petition." (quoting Balmer, *Sham Litigation and the Antitrust Laws*, 29 Buffalo L.Rev. 39, 60 (1980)) (emphasis added)).

of the circuit courts on these issues vary widely" (Pet. 19) and all are in conflict with the Ninth Circuit's opinion here. (Pet. 18-26). Petitioners are wrong. With the exception of an anomalous, divided, decision from the Fifth Circuit — which has been discredited by a subsequent decision of this Court — the Ninth Circuit's opinion is in complete harmony with the decisions of all other circuits. The court of appeals' opinion thus raises no intercircuit conflict meriting review by this Court.

Despite petitioners' contrary assertion, the Ninth Circuit's holding is in total accord with the decisions of the Second,¹⁸ Third,¹⁹ Fourth,²⁰ Eighth,²¹

¹⁸ *Juster Associates v. City of Rutland, Vermont*, 901 F.2d 266, 271 (2d Cir. 1990) ("to be immune, participation in administrative or judicial processes must be for the purpose of asserting *colorable* claims within the jurisdiction of the particular tribunal" (emphasis added)); *Landmarks Holding Corp. v. Bermant*, 664 F.2d 891, 896-7 (2d Cir. 1981) ("abuse of the administrative and judicial process through unethical lawyer conduct and repetitive filing of insubstantial claims is unprotected by the *Noerr-Pennington* immunity. . . . The right to petition the courts for the redress of grievances does not protect abuse of the judicial process through the institution and subsidization of baseless litigation and delay of its final resolution, solely to harass and hinder a competitor.").

¹⁹ *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 161 (3d Cir. 1984) (success on merits of copyright infringement claim precludes finding of sham).

²⁰ *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 565 (4th Cir. 1990), *cert. denied*, 111 S.Ct. 1414 (1991) (holding that successful suit cannot be a sham and rejecting argument "that regardless of merit, a suit can be a sham if it was brought for the purpose of being a sham" (emphasis in original)).

²¹ *Razorback Ready Mix Concrete Co., Inc. v. Weaver*, 761 F.2d 484, 487 (8th Cir. 1985) ("It is only where a defendant's resort to the courts is accompanied or characterized by illegal and reprehensible practices such as perjury, fraud, conspiracy with or bribery of government decision makers, or misrepresentation, or is so clearly baseless as to amount to an abuse of process, that the *Noerr-Pennington* cloak of immunity provides no protection", quoting *Chest Hill Co. v. Guttman*, 1981-2 Trade Cas. (CCH) ¶ 64,417, at 75,054 (S.D. Ohio 1981)); *Alexander v.*

(Continued on following page)

Tenth,²² Eleventh,²³ and District of Columbia²⁴ Circuits. Each of those circuits, like the Ninth Circuit, holds that to be deemed a sham a lawsuit must, at a minimum, either be baseless or involve misrepresentations or other abuses (e.g., perjury, bribery, patent fraud) in the adjudicatory process. (See notes 18-24, *supra*). No decision from any of those circuits has held, as petitioners would have this Court hold here, that a non-baseless suit, involving no fraud or other abuse in the adjudicatory process, was a sham solely because the suit was allegedly brought for an improper purpose.

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National Farmers Organization, 687 F.2d 1173, 1200 (8th Cir. 1982), *cert. denied*, 461 U.S. 937 (1983) ("Notwithstanding the foregoing evidence of intent, we cannot say that the legal claims against [the antitrust plaintiff] were so groundless as to come within the 'sham litigation' exception to the *Noerr-Pennington* doctrine.").

²² *Hydro-Tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171, 1176-77 (10th Cir. 1982) ("A sham action is one which tends to be abusive of the judicial process and, therefore, is something more than an action instituted without probable cause". *Id.* at 1177); *Adolph Coors Co. v. A&S Wholesalers, Inc.*, 561 F.2d 807, 812 (10th Cir. 1977) (because issue in prior lawsuit was sufficiently difficult to warrant Supreme Court review, the suit was not a sham); *Edward B. Marks Music Corp. v. Colorado Magnetics, Inc.*, 497 F.2d 285, 290-92 (10th Cir. 1974), *cert. denied*, 419 U.S. 1120 (1975) (successful suit cannot be sham).

²³ *St. Joseph's Hospital, Inc. v. Hospital Corp. of America*, 795 F.2d 948, 955 (11th Cir. 1986) (employment of "every available legal means" in litigation, unaccompanied by misrepresentations in the adjudicatory process, is not sham).

²⁴ *Federal Prescription Service, Inc. v. American Pharmaceutical Assn.*, 663 F.2d 253, 266 (D.C. Cir. 1981), *cert. denied*, 455 U.S. 928 (1982) (litigation not sham where it "was not baseless, . . . there was no showing of any abuse of the judicial process, and . . . [the antitrust plaintiff] . . . was not denied meaningful access to the appropriate judicial forums" (emphasis in original)).

The Ninth Circuit's opinion is also consistent with the decisions from the Sixth²⁵ and Seventh²⁶ Circuits, upon which petitioners rely. Those decisions, like the Ninth Circuit's opinion here, hold that a suit brought with probable cause may be deemed a sham if the suit involved some overt act abusive of the judicial process.²⁷ Some of the Sixth and Seventh Circuit decisions (*Westmac*, *Premier*, *Grip-Pak*), unlike the Ninth Circuit's opinion, also speculate that hypothetical fact situations might arise where a non-baseless suit, involving no abusive conduct, could still be deemed a sham if "the stakes, discounted by the probability of winning, would be too low" to justify bringing the suit for any purpose other than suppressing competition.²⁸ However, no such factual situations were actually present in *Westmac*, *Premier*, or *Grip-Pak*.²⁹ Nor are such facts alleged by

²⁵ *Opdyke Investment Co. v. City of Detroit*, 883 F.2d 1265 (6th Cir. 1989); *Westmac, Inc. v. Smith*, 797 F.2d 313 (6th Cir. 1986), cert. denied, 479 U.S. 1035 (1987).

²⁶ *Premier Electrical Construction Co. v. National Electrical Contractors Assn., Inc.*, 814 F.2d 358 (7th Cir. 1987); *Winterland Concessions Co. v. Trela*, 735 F.2d 257 (7th Cir. 1984); *MCI Communications v. American Tel. & Tel. Co.*, 708 F.2d 1081 (7th Cir. 1983), cert. denied, 464 U.S. 891 (1983); *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983).

²⁷ *Opdyke*, 883 F.2d at 1273; *Premier*, 814 F.2d at 375 ("perjury and fraud in the conduct of litigation"); *Westmac*, 797 F.2d at 319 n. 10, 320 n. 12; *id.* 320-23 (dissenting opinion); *Winterland*, 735 F.2d at 263; *MCI Communications*, 708 F.2d at 1156; *Grip-Pak*, 694 F.2d at 470-72. See also *Ross v. Bremer*, 1982-2 Trade Cas. (CCH) ¶ 64,746 at 71,618-619 (W.D. Wash. 1982) (successful suit may be deemed a sham if the antitrust defendant prevailed in the suit by making misrepresentations to the court).

²⁸ *Premier*, 814 F.2d at 372; *Westmac*, 797 F.2d at 319 n. 9; *Grip-Pak*, 694 F.2d at 472. See also *State of South Dakota v. Kansas City Southern Industries Inc.*, 880 F.2d 40, 54 n. 30 (8th Cir. 1989), cert. denied, 493 U.S. 1023 (1990).

²⁹ *Id.*

petitioners here. To the contrary, as both the district court and Ninth Circuit held (App. 15a, 24a, 36a-37a, 44a (¶ 1)), this case indisputably involved an important and difficult federal copyright issue of first impression, which is "the kind of question that has to be tested in the Court." *Aircapital Cablevision, Inc. v. Starlink Communications Group, Inc.*, 634 F.Supp. 316, 322 (D. Kan. 1986). Indeed, the importance of the issue raised in respondents' copyright suit was vividly underscored by the wide press coverage (note 5, *supra*) and criticism from leading copyright scholars (note 6, *supra*) that the district court's decision in the suit generated. This case is therefore an inappropriate vehicle for addressing the hypothetical situation posited by *Westmac*, *Premier* and *Grip-Pak*.

The court of appeals' opinion is, in sum, consistent with the decisional law of virtually every other circuit. In fact, the Ninth Circuit's opinion directly differs with only one circuit court decision: the Fifth Circuit's 2-1 decision in *In Re Burlington Northern, Inc.*, 822 F.2d 518 (5th Cir. 1987), cert. denied, 484 U.S. 1007 (1988) (see App. 11a-14a). In *Burlington Northern*, the Fifth Circuit held, in contrast to the court of appeals' opinion here (App. 16a), that a successful (*i.e.*, nonbaseless) lawsuit could theoretically be deemed a sham solely because the suit was not "significantly motivated by a genuine desire for judicial relief." 822 F.2d at 528.³⁰ For the reasons discussed below, however, the Ninth Circuit's disagreement with *Burlington Northern* does not merit review in this case.

³⁰ The Fifth Circuit's decision in *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358 (5th Cir. 1983) does not, as petitioners appear to suggest (Pet. 23-24), hold — like the majority opinion in *Burlington Northern* — that non-baseless litigation may be deemed a sham merely because it was brought for an improper purpose. To the contrary, *Coastal States* indicates that even an improperly motivated lawsuit is protected by *Noerr* if it presents "a genuine legal dispute." *Id.* at 1372, citing *Alexander v. National Farmers Organization*, 687 F.2d at 1200. See note 21, *supra*.

First, it is not at all clear that the opinion of the panel majority in *Burlington Northern* represents a true conflict between the Fifth and the Ninth Circuits. Just two years before the decision in *Burlington Northern*, the Fifth Circuit held — in stark contrast to the panel majority in *Burlington Northern*, and in complete accord with the reasoning of the court of appeals' decision in this case — that non-baseless petitioning *cannot* be deemed a sham. *Greenwood Utilities Commission v. Mississippi Power Co.*, 751 F.2d 1484, 1498-1500 (5th Cir. 1985) (Higginbotham, J.).³¹ The panel majority in *Burlington Northern*, however, neither overruled nor distinguished the unanimous decision in *Greenwood*. Because the Fifth Circuit has not reconciled the inconsistency between *Greenwood* and *Burlington Northern*, there is not yet a sufficient basis for concluding that the Ninth Circuit's disagreement with *Burlington Northern* represents a true intercircuit conflict (rather than a mere Fifth Circuit *intracircuit* conflict) warranting this Court's intervention.

Second, the panel majority's 1987 holding in *Burlington Northern* — i.e., that successful petitioning can be deemed a sham — was severely undercut by this Court's intervening decision in *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988), in which the Court ruled that successful petitioning in the legislative arena *cannot* be deemed a sham.³² For this

³¹ In *Greenwood*, Judge Higginbotham wrote: "Only where evidence shows that the defendant knew or should have known that the action he sought was improper [i.e., that the action was baseless] would a court be justified in labeling his petitions a 'sham' not entitled to *Noerr-Pennington* protection. . . . it is safe to say that in the absence of proof of a conspiracy with government officials, when a defendant succeeds, as here, in persuading the government to adopt his position, his petitioning conduct should not be considered sham activity." *Id.* at 1500.

³² *Id.* at 502 ("The effort to influence governmental action in this case certainly cannot be characterized as a sham given the actual adoption of the 1981 Code into a number of statutes and local ordinances.").

reason alone, the Ninth Circuit's disagreement with the majority opinion in *Burlington Northern* provides an inadequate basis for review. See R. Stern, E. Gressman and S. Shapiro, *Supreme Court Practice*, Sixth Edition (1986) 201 ("A conflict with a decision which has been discredited . . . by reason of intervening decisions of the Supreme Court . . . will not be an adequate basis for granting certiorari.").

Third, the disagreement between the Ninth Circuit and the panel majority in *Burlington Northern* has not been aired sufficiently in the lower courts to merit this Court's plenary review. Indeed, the court of appeals' opinion is the only appellate decision that has ever directly addressed the Fifth Circuit's aberrational holding in *Burlington Northern* that successful petitioning may be deemed a sham.³³ Further airing of the matter in other circuits is thus necessary both to sharpen and illuminate the issues that arise when an antitrust plaintiff seeks to apply the sham exception to non-baseless petitions and also to permit a further weighing of the issues in light of this Court's ruling in *Allied Tube* that successful petitioning in the legislative arena cannot be deemed a sham. This additional analysis will, in turn, provide valuable guidance to the Court if a review of these issues becomes necessary in the future.³⁴ Because the issues deserve further study — indeed, because the Fifth Circuit itself deserves an

³³ Moreover, only one district court has addressed the panel majority's holding in *Burlington Northern*. See *G. Heileman Brewing Co. v. Anheuser-Busch, Inc.*, 676 F.Supp. 1436, 1476-77, 1498-99 (E.D. Wisc. 1987), *aff'd on other grounds*, 873 F.2d 985 (7th Cir. 1989) (accepting *Burlington Northern*'s holding that successful petitioning may be deemed a sham, but ruling that an antitrust plaintiff who "attempt[s] to base liability on successful petitioning must overcome a strong inference that *Noerr-Pennington* applies" *Id.* at 1477).

³⁴ See *McCray v. New York*, 461 U.S. 961 (1983) (opinion of Justice Stevens respecting the denial of petitions for writs of certiorari).

opportunity to reconsider its divided opinion in *Burlington Northern* in light of *Allied Tube*, *Greenwood* and the court of appeals' opinion in this case — the fact that *Burlington Northern*, unlike the court of appeals' opinion here, concluded that under some circumstances successful petitioning could theoretically be deemed a sham does not provide a basis for review in this case. See *McCray*, *supra*.

CONCLUSION

The Petition for Writ of Certiorari should be denied.

DATED: February 19, 1992

Respectfully submitted,

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(Counsel of Record)

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The Walt Disney Company,
Warner Bros. Inc. and CBS Inc.

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UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA

HONORABLE WILLIAM P. GRAY,
JUDGE PRESIDING

COLUMBIA PICTURES)	
INDUSTRIES, INC., ET AL.,)	
)	CIVIL
PLAINTIFFS,)	NO. 83-2594-WPG
VS.)	
PROFESSIONAL REAL ESTATE)	
INVESTORS INC., ET AL.,)	
DEFENDANTS.)	
<hr/>		
AND RELATED COUNTERCLAIMS.		

REPORTER'S TRANSCRIPT OF PROCEEDINGS

LOS ANGELES, CALIFORNIA

MONDAY, MARCH, 24, 1986

LESLIE L. RICHTER, CSR 840
OFFICIAL COURT REPORTER
546 U.S. COURTHOUSE
312 NORTH SPRING STREET
LOS ANGELES, CALIFORNIA 90012

* * *

[p. 3] LOS ANGELES, CALIFORNIA, MONDAY,
MARCH 24, 1986
9:30 A.M. SESSION

THE CLERK: CIVIL 83-2594, COLUMBIA PICTURES INDUSTRIES, INCORPORATED, ET AL., VERSUS PROFESSIONAL REAL ESTATE INVESTORS.

MR. KROFT: GOOD MORNING, YOUR HONOR. MY NAME IS STEPHEN KROFT AND I'M HERE WITH MY PARTNER, MAREN CHRISTENSEN FOR THE PLAINTIFFS.

MR. KING: GOOD MORNING, YOUR HONOR. MY NAME IS JEFFREY KING AND I'M HERE ON BEHALF OF THE DEFENDANTS WITH LAURA BARNES.

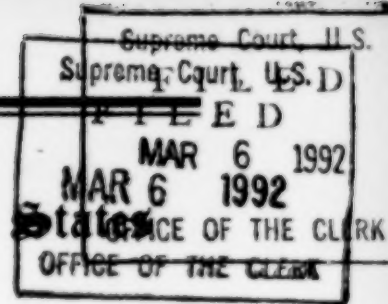
THE COURT: SUBJECT TO ARGUMENT, I'M DISPOSED TO STAY FURTHER PROCEEDINGS IN THIS MATTER PENDING THE APPEAL. I THINK THE ISSUE ON WHICH I GRANTED SUMMARY JUDGMENT IS A VERY CLOSE ONE.

AS A MATTER OF FACT SOME OF YOU MAY KNOW MAROWE FRIEDMAN, WHO IS A PROFESSOR OF LAW AT HOFSTRA UNIVERSITY AND HE LECTURED ON COPYRIGHT MATTERS AND I MENTIONED THIS ONE TO HIM AND HE IMMEDIATELY SAID, "WELL, THAT WAS A PUBLIC USE."

SO AT LEAST HE IS CONVINCED THAT I WAS WRONG.

* * *

IN THE
Supreme Court of the United States
OCTOBER TERM, 1991



PROFESSIONAL REAL ESTATE INVESTORS, INC.,
AND
KENNETH F. IRWIN,
Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,
EMBASSY PICTURES,
PARAMOUNT PICTURES CORPORATION,
TWENTIETH CENTURY FOX FILM CORPORATION,
UNIVERSAL CITY STUDIOS, INC.,
WALT DISNEY PRODUCTIONS,
WARNER BROS., INC., AND
CBS INC.,
Respondents.

On Petition For A Writ Of Certiorari
To The United States Court Of
Appeals For The Ninth Circuit

REPLY BRIEF FOR PETITIONERS

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REPLY BRIEF FOR PETITIONERS

This Petition presents one issue: whether the Ninth Circuit misconstrued the sham exception to the *Noerr-Pennington* doctrine by refusing to consider any factual evidence that Respondents' failed copyright lawsuit was not pursued with a genuine desire to obtain a favorable judgment. Instead of considering evidence of actual intent, the court below summarily terminated its sham exception analysis after it concluded that the lawsuit, while ultimately unsuccessful, was not "baseless" as a matter of law (*i.e.*, that it satisfied the minimum requirements of pleading under Rule 11 of the Federal Rules of Civil Procedure).

This Petition asks whether a trial court may refuse to permit any discovery on the issue of actual intent and terminate sham exception analysis merely upon the reasoning that a failed lawsuit could not have been brought (1) to burden and harass the defendants; and (2) with indifference as to the lawsuit's result, if the unsuccessful claim was not "baseless" in the opinion of the court. This is an important issue because, as formulated, the Ninth Circuit's test would allow conspirators to file lawsuits designed solely to burden and harass competitors, so long as they state a colorable claim facially capable of passing an objective "not baseless" test.

In their Brief in Opposition, Respondents attempt to circumvent the narrow legal issue presented in this Petition by arguing about the very facts upon which Petitioners were denied discovery. Moreover, Respondents engage in an extensive discussion of several questions of fact that are irrelevant to sham exception analysis, including the alleged novelty, dif-

ficulty and notoriety of their unsuccessful copyright claim. Respondents observe that the trial judge stated that he thought the plaintiffs were "seeking and expecting a favorable result." Brief of Respondents in Opposition 3. From that statement, Respondents extrapolate that the decision of the court below was "routine," and that the circuits are "in complete harmony" regarding the appropriate test to apply in sham exception analysis.

This argument skirts the sole issue presented by this Petition—whether the trial court erred by making its sham exception finding without taking any evidence of actual intent. It is difficult to imagine a crisper or clearer record upon which to present this issue, which has divided the circuits for nearly twenty years:

- In the district court, Petitioners sought discovery of evidence of actual intent.
- The court granted Respondents' motion for summary judgment without allowing any discovery regarding actual intent.
- The Ninth Circuit affirmed, holding that discovery of actual intent is irrelevant where the trial court believes that the unsuccessful claim, as filed, was not baseless.

This Petition presents a narrow issue that has sharply divided the circuits—does subjective or true intent determine whether petitioning activity is a mere sham resulting in an abuse of process (as the Fifth, Sixth, and Seventh Circuits have ruled); or does objective or apparent intent control (as the Ninth Circuit so starkly ruled in this case); or is the proper test an amalgam of subjective and objective factors (as

other circuits have ruled). See Petition for Writ of Certiorari 19-21.

For these reasons, the Petition for Writ of Certiorari should be granted.

March 6, 1992

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MAY 14 1992

OFFICE OF THE CLERK

IN THE
Supreme Court of the United States
OCTOBER TERM, 1992

PROFESSIONAL REAL ESTATE INVESTORS, INC.,
and KENNETH F. IRWIN,
Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,
EMBASSY PICTURES,
PARAMOUNT PICTURES CORPORATION,
TWENTIETH CENTURY-FOX FILM CORPORATION,
UNIVERSAL CITY STUDIOS, INC.,
WALT DISNEY PRODUCTIONS,
WARNER BROS., INC., and
CBS INC.,
Respondents.

**On Writ Of Certiorari To The United States Court of
Appeals For The Ninth Circuit**

PETITIONERS' BRIEF ON THE MERITS

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QUESTION PRESENTED

Whether the Ninth Circuit misconstrued the sham exception to the *Noerr-Pennington* doctrine by refusing to consider evidence that the lawsuit in question was pursued with indifference to its outcome, after it initially concluded that the lawsuit was not "baseless" as a matter of law?

PARTIES TO THE PROCEEDING

All of the parties to the proceeding below are set forth in the caption to this case. Pursuant to Rule 29.1 of the Rules of this Court, Petitioners state that Professional Real Estate Investors, Inc. has no wholly-owned subsidiaries and no parent corporation.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	i
PARTIES TO THE PROCEEDING	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	iv-viii
OPINIONS BELOW	1
JURISDICTION	2
STATUTORY PROVISIONS INVOLVED	2
STATEMENT OF THE CASE	2
A. The Parties and the Market	2
B. The Sham	7
C. The Course of the Proceedings and Disposition Below	9
SUMMARY OF ARGUMENT	13
ARGUMENT	14
A. The Ninth Circuit's Holding In This Case Is At Odds With The Opinions of This Court	14
B. Other Lower Courts Are At Odds With The Ninth Circuit	20
C. A Mechanical Reliance On Purely Objective Criteria To Distinguish Sham Petitioning Would Permit Abusive Results	25
D. The Ninth Circuit's Error In This Case	28
CONCLUSION	34

TABLE OF AUTHORITIES

CASES:	Page
<i>Allied Tube & Conduit Corp. v. Indian Head, Inc.</i> , 486 U.S. 492 (1988)	19,20
<i>American Tobacco Co. v. United States</i> , 147 F.2d 93 (6th Cir. 1944), <i>aff'd</i> , 328 U.S. 781 (1946)	32
<i>Anderson v. Liberty Lobby, Inc.</i> , 477 U.S. 242 (1986)	32
<i>Bill Johnson's Restaurants, Inc. v. N.L.R.B.</i> , 461 U.S. 731 (1983)	19,31
<i>Boulware v. State of Nevada</i> , 1992-1 Trade Cas. (CCH) ¶ 69,771 (9th Cir. Mar. 27, 1992)	29
<i>In re Burlington Northern, Inc.</i> , 822 F.2d 518 (5th Cir. 1987), <i>cert. denied</i> , 484 U.S. 1007 (1988)	21,24,25,26,28
<i>California Motor Transport Co. v. Trucking Unlim- ited</i> , 404 U.S. 508 (1972)	15,16,17,18
<i>Celotex Corp. v. Catrett</i> , 477 U.S. 317 (1986)	33
<i>Chipanno v. Champion Int'l Corp.</i> , 702 F.2d 827 (9th Cir. 1983)	34
<i>Coastal States Marketing, Inc. v. Hunt</i> , 694 F.2d 1358 (5th Cir. 1983)	21,28
<i>Columbia v. Omni Outdoor Advertising, Inc.</i> , 111 S.Ct. 1344 (1991)	15,20
<i>Columbia Pictures Indus., Inc. v. Professional Real Estate Investors, Inc.</i> , 944 F.2d 1525 (9th Cir. 1991), <i>cert. granted</i> , 118 L.Ed.2d 206 (U.S. Mar. 30, 1992) (No. 91-1043)	1,2,21
<i>Columbia Pictures Indus., Inc. v. Redd Horne, Inc.</i> , 749 F.2d 154 (3d Cir. 1984)	22
<i>Continental Ore Co. v. Union Carbide & Carbon Corp.</i> , 370 U.S. 690 (1962)	32
<i>Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.</i> , 365 U.S. 127 (1961)	14,15,16,17

Table of Authorities Continued

	Page
<i>Eden Hannon & Co. v. Sumitomo Trust & Banking Co.</i> , 914 F.2d 556 (4th Cir. 1990), <i>cert. denied</i> , 111 S.Ct. 1414 (1991)	22
<i>Energy Conservation, Inc. v. Heliodyne, Inc.</i> , 698 F.2d 386 (9th Cir. 1983)	34
<i>Fed. Prescription Service, Inc. v. Am. Pharma- ceutical Ass'n</i> , 663 F.2d 253 (D.C. Cir. 1981), <i>cert. denied</i> , 455 U.S. 928 (1982)	22
<i>First Am. Title Co. of South Dakota v. South Da- kota Land Title Ass'n</i> , 714 F.2d 1439 (8th Cir. 1983), <i>cert. denied</i> , 464 U.S. 1042 (1984)	22
<i>Greenwood Utilities Comm'n v. Mississippi Power Co.</i> , 751 F.2d 1484 (5th Cir. 1985)	28
<i>Grip-Pak, Inc. v. Illinois Tool Works, Inc.</i> , 694 F.2d 466 (7th Cir. 1982), <i>cert. denied</i> , 461 U.S. 958 (1983)	21,22,23,27,28
<i>Hosp. Bldg. Co. v. Trustees of Rex Hosp.</i> , 425 U.S. 738 (1976)	34
<i>Hosp. Bldg. Co. v. Trustees of Rex Hosp.</i> , 791 F.2d 288 (4th Cir. 1986)	22,28
<i>Hydro-Tech Corp. v. Sunstrand Corp.</i> , 673 F.2d 1171 (10th Cir. 1982)	22
<i>Juster Assoc. v. Rutland</i> , 901 F.2d 266 (2d Cir. 1990)	21
<i>Litton Systems, Inc. v. Am. Tel. & Tel. Co.</i> , 700 F.2d 785 (2d Cir. 1983), <i>cert. denied</i> , 464 U.S. 1073 (1984)	21
<i>MCI Communications Corp. v. Am. Tel. & Tel. Co.</i> , 708 F.2d 1081 (7th Cir.), <i>cert. denied</i> , 464 U.S. 891 (1983)	21,28
<i>Mark Aero, Inc. v. Trans World Airlines, Inc.</i> , 580 F.2d 288 (8th Cir. 1978)	22,28
<i>Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.</i> , 475 U.S. 574 (1986)	33

Table of Authorities Continued

	Page
<i>Otter Tail Power Co. v. United States</i> , 410 U.S. 366 (1973)	18
<i>Poller v. Columbia Broadcasting System, Inc.</i> , 368 U.S. 464 (1962)	33,34
<i>Premier Elec. Constr. Co. v. Nat'l Elec. Contractors Ass'n</i> , 814 F.2d 358 (7th Cir. 1987)	21
<i>St. Joseph's Hosp., Inc. v. Hosp. Corp. of Am.</i> , 795 F.2d 948 (11th Cir. 1986)	22
<i>South Dakota v. Kansas City S. Indus., Inc.</i> , 880 F.2d 40 (8th Cir. 1989), cert. denied, 493 U.S. 1023 (1990)	22
<i>Timberlane Lumber Co. v. Bank of America, N.T. & S.A.</i> , 549 F.2d 597 (9th Cir. 1976)	34
<i>United Mine Workers of Am. v. Pennington</i> , 381 U.S. 657 (1965)	14,15,16
<i>United States v. Syufy Enter.</i> , 712 F. Supp. 1386 (N.D. Cal. 1989), aff'd, 903 F.2d 659 (9th Cir. 1990)	5
<i>Vendo Co. v. Lektro-Vend Corp.</i> , 433 U.S. 623 (1977)	18
<i>Westmac, Inc. v. Smith</i> , 797 F.2d 313 (6th Cir. 1986), cert. denied, 479 U.S. 1035 (1987)	21,26,28
<i>Winterland Concessions Co. v. Trela</i> , 735 F.2d 257 (7th Cir. 1984)	21
STATUTES:	
15 U.S.C.	
Section 1	2,8
Section 2	2,8
Section 26	18
17 U.S.C.	
Section 109	4

Table of Authorities Continued

	Page
28 U.S.C.	
Section 1254(1)	2
Section 2283	18
Cal. Bus. & Prof. Code (West 1987)	
Section 16720	2,8
Section 16726	2,8
RULES:	
Federal Rules of Civil Procedure	
Rule 11	9
Rule 12(b)(6)	9
LEGISLATIVE MATERIALS:	
House Comm. on the Judiciary, Copyright Law Revision, H.R. Rep. No. 1476, 94th Cong., 2d Sess. (1976)	5
House Comm. on the Judiciary, 89th Cong., 1st Sess., Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill (Comm. Print 1965) .	6
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House Comm. on the Judiciary, 87th Cong., 1st Sess., Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law (Comm. Print. 1961)	6

Table of Authorities Continued

	Page
ARTICLES AND TREATISES:	
Phillip E. Areeda & Herbert Hovenkamp, <i>Antitrust Law</i> (Supp. 1991)	25
Stephen Calkins, <i>Developments in Antitrust and the First Amendment: The Disaggregation of Noerr</i> , 57 <i>Antitrust L. J.</i> 327 (1988)	25
James D. Hurwitz, <i>Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr</i> , 74 <i>Geo. L. J.</i> 65 (1985)	25,27,28

IN THE
Supreme Court of the United States
 OCTOBER TERM, 1992

No. 91-1043

PROFESSIONAL REAL ESTATE INVESTORS, INC.,
 and
 KENNETH F. IRWIN,
Petitioners,
 v.

COLUMBIA PICTURES INDUSTRIES, INC.,
 EMBASSY PICTURES,
 PARAMOUNT PICTURES CORPORATION,
 TWENTIETH CENTURY-FOX FILM CORPORATION,
 UNIVERSAL CITY STUDIOS, INC.,
 WALT DISNEY PRODUCTIONS,
 WARNER BROS., INC., and
 CBS INC.,
Respondents.

On Writ Of Certiorari To The United States Court of
 Appeals For The Ninth Circuit

PETITIONERS' BRIEF ON THE MERITS

OPINIONS BELOW

The opinion of the U.S. Court of Appeals for the
 Ninth Circuit was entered on September 24, 1991.
 The opinion is reported at 944 F.2d 1525 (9th Cir.

1991) and is reprinted in the Appendix to the Petition for a Writ of Certiorari ("Pet. App.") at 1a-19a. The Amended Summary Judgment of the United States District Court for the Central District of California was entered on April 9, 1990. The Amended Summary Judgment, which is unreported, is reprinted at Pet. App. 20a-22a. The Memorandum of Decision of the District Court is reported at 1990-91 Trade Cas. (CCH) ¶ 68,971 (C.D. Cal. 1990) and is reprinted at Pet. App. 23a-25a.

JURISDICTION

The judgment of the Ninth Circuit Court of Appeals was entered on September 24, 1991. The Petition for a Writ of Certiorari was filed on December 23, 1991 and granted on March 30, 1992. 118 L.Ed.2d 206 (U.S. Mar. 30, 1992) (No. 91-1043). This Court has jurisdiction to review the judgment of the Ninth Circuit Court of Appeals by writ of certiorari pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The federal statutory provisions involved in this case are Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2. They are set out verbatim at Pet. App. 51a. The state statutory provision involved in this case is Section 1 of the Cartwright Act, as codified at Cal. Bus. & Prof. Code §§ 16720, 16726 (West 1987). It is set out verbatim at Pet. App. 52a-53a.

STATEMENT OF THE CASE

A. The Parties and The Market

Petitioners Kenneth F. Irwin and Professional Real Estate Investors, Inc. ("Petitioners") are the propri-

etors of La Mancha Private Club and Villas, a small resort in Palm Springs, California. Pet. App. 4a-5a, 29a, 41a; Joint Appendix ("J.A.") 566; Declaration of Kenneth F. Irwin (Oct. 17, 1985) ("Irwin Declaration") at 1. La Mancha, an independent facility that has never been affiliated with a hotel or resort chain, is registered with the City of Palm Springs as a private club for tax and business licensing purposes. La Mancha is not a public accommodation under California law. Irwin Declaration at 1. Its grounds are not open to the general public; on the contrary, the entire resort is enclosed by gates. *Id.* at 2; J.A. 246, 252, 253. Non-members may, under limited circumstances, obtain temporary guest privileges at La Mancha, but the club reserves the right to refuse service to members of the general public. Irwin Declaration at 1.

In addition to operating La Mancha, Petitioners became distributors of RCA video disc players in the early 1980s. J.A. 254, 566. After installing video equipment in each of the La Mancha club villas, Pet. App. 5a; J.A. 566, Petitioners took steps to develop a market for the sale of similar RCA video disc players to hotels that wanted to offer their guests the option of private in-room viewing of recently-released motion pictures and other recorded entertainments.¹ J.A. 562-63, 566-67.

¹ Given its efforts to compete in this market and its confidence that the motion picture studios' position lacked merit, Petitioners did not contest (for purposes of the copyright case) that the La Mancha facility was the functional equivalent of a hotel. In other litigation, Respondents have admitted, through the same counsel that represented them in this action, that hotel rooms are private; i.e., not open to the public. See Defendants' Corrected First

Under Petitioners' innovative system at La Mancha, members rented popular films from a library of over 200 video discs that Irwin had purchased from RCA and viewed their selections in privacy on the video disc players installed in their villas. Pet. App. 29a, 44a. La Mancha members were also offered the option of purchasing video discs from La Mancha, in which case any preview or rental fees charged to them would be deducted from the purchase price.² Petitioners calculated that the capital investment required to provide this service was far less than the alternative—obtaining the wired cable technology offered by Respondents' licensee, Spectradyne, Inc.—and that Petitioners' system offered club members more choices. J.A. 567.

Respondents are eight major motion picture studios ("the Studios"). Pet. App. 29a, 41a. The Studios hold copyrights to motion pictures that are distributed—on video discs and by other means—to theatres, hotels, consumers (for rental or purchase), pay cable television, commercial broadcast television, and for domestic and foreign syndication. Pet. App. 41a.³

Cross-Appeal Brief at 29-30, filed Sept. 11, 1990, *Columbia Pictures Industries, Inc. et al. v. Professional Real Estate Investors, Inc. et al.*, 944 F.2d 1525 (9th Cir. 1991) (Nos. 90-55583, 90-55668, 90-55746) (hereinafter "Defendants' First Cross-Appeal Brief"); Appendix to Defendants' First Cross-Appeal Brief at 500-07. Yet when Respondents instituted the underlying copyright infringement action, they took a contrary position on the issue of privacy. J.A. 7, 9, 10, 11-12, 13, 14, 15-16, 17.

² Rental and resale of legitimate copies of a copyrighted video are protected by the first sale doctrine. See 17 U.S.C. § 109.

³ Without discovery, it is not possible to delineate the competitive relationships with precision from this record, but as

Thus, in the early 1980s, Petitioners were competitors of Respondents and of Spectradyne, Inc. in the markets for (1) the provision of in-room viewing equipment and motion picture entertainment services at hotels, including the large chains; and (2) the licensing of copyrighted motion pictures for viewing at La Mancha.

For approximately thirty years, since the earliest stages of congressional consideration of the current Copyright Act, Respondents have unsuccessfully attempted to persuade the U.S. Congress to expand the copyrights to their films to cover all rentals, including private performances of copyrighted works in hotel rooms. J.A. 259-60, 549, 557. However, for purposes of the Copyright Act, Congress has consistently concluded that hotel rooms are private, not public, areas. In fact, throughout the Copyright Act's legislative history, Congress refers to "private hotel rooms," and distinguishes these private areas from the common areas at hotels. See, e.g., House Comm. on the Ju-

reflected in the case law generated by the industry, Respondents generally seek to maximize the economic benefits to be derived from their copyrighted works by controlling the licensing of the works so as to create distinct, successive channels of distribution. Although the practice has varied somewhat over time and with the characteristics of particular works, generally, after first-run theatrical domestic exhibition, a motion picture may be released for sale or rental on video disc and cassette. Next, it may be released to a licensed distributor, such as Spectradyne, Inc., exclusively for exhibition in hotels. Next, it may be licensed to pay cable television and then to free or over-the-air commercially-supported broadcast television. Domestic syndication on broadcast television and foreign theatrical and foreign television distribution are also distinct channels of distribution. J.A. 219-20. See also, e.g., *United States v. Syufy Enter.*, 712 F. Supp. 1386, 1388 (N.D. Cal. 1989), *aff'd*, 903 F.2d 659 (9th Cir. 1990).

diciary, Copyright Law Revision, H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79 (1976); House Comm. on the Judiciary, 89th Cong., 1st Sess., Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill 43 (Comm. Print 1965).⁴

Although Congress made it clear in the 1960s that it was unwilling to prohibit or limit the rental of recorded motion pictures for private viewing, in the early 1980s, shortly before they sued Petitioners (ostensibly for copyright infringement), Respondents attempted once again to persuade Congress to provide them with the right to control rentals for private viewing, including in-room viewing in hotel rooms. J.A. 260, 549, 557. Once again, Congress refused to grant their request. *Id.*

Respondents therefore took other steps to insulate from competition their control of the distribution of recorded video entertainment to the hotel trade through their licensee, Spectradyme, Inc. First, in the fall of 1982, after learning of the innovative video

⁴ In addition, in a 1961 report, the Register of Copyrights directly addressed Respondents' arguments regarding private viewing and rejected them. J.A. 259-260. See House Comm. on the Judiciary, 88th Cong., 2d Sess., Copyright Law Revision Part 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft 135-137, 253 (Comm. Print 1964) (Appendix to Defendants' First Cross-Appeal Brief at 581-85); House Comm. on the Judiciary, 87th Cong., 1st Sess., Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 29-30 (Comm. Print 1961) (Appendix to Defendants' First Cross-Appeal Brief at 578-80).

disc rental service that Petitioners had introduced at La Mancha, Respondents sent Petitioners a threatening cease and desist letter, protesting that the service violated federal copyright law. Pet. App. 44a; J.A. 245. The letter warned that if Petitioners refused to discontinue their rental service, Respondents would take legal action. Pet. App. 44a. When Petitioners replied that they would not discontinue the service because it did not infringe the Respondents' copyrights, the Respondents made good on their previous threats and collectively sued Petitioners on April 25, 1983. Pet. App. 4a-5a, 29a, 44a; J.A. 3-31, 121.

Second, Respondents publicized the position adopted in their litigation in trade journal advertisements and articles in order to deter others, including the major hotel chains, from adopting the stand-alone equipment option that Petitioners had pioneered at La Mancha. J.A. 546. Despite their unsuccessful attempts to persuade Congress to modify the Copyright Act with respect to private viewing in hotel rooms, Respondents' trade journal advertisements asserted that in-room hotel viewing of their recorded and copyrighted motion pictures constituted public performances that infringed their copyrights. *Id.* The advertisements implied that any firm found to be providing such services would, like Petitioners, be sued for copyright infringement.

B. The Sham

Petitioners knew that having to endure the copyright litigation with Respondents would be harmful to their business, even if they ultimately prevailed. They knew that a coalition of the most prominent movie studios in the United States would be far better able to shoulder the burdens of the litigation than

they. Therefore, Petitioners offered to settle the dispute if Respondents would grant them a license to continue to offer the video disc rental service at La Mancha. Pet. App. 8a-9a; J.A. 121-22, 176, 183. Respondents refused to grant such a license. *Id.* Instead, they insisted upon litigating their copyright claim to the bitter end. Respondents' copyright litigation against Petitioners would take six years to resolve.

Petitioners were perplexed by Respondents' refusal to license them to continue offering the rental service at their club. Because they were also aware that (1) Congress had repeatedly rejected Respondents' arguments that hotel rooms are "public" areas for purposes of the Copyright Act; and (2) La Mancha was not a hotel, let alone a public place, Petitioners concluded that Respondents intended to remove them from the market in order to protect their preferred licensee, Spectradyme, Inc., from Petitioners' competition.

Accordingly, Petitioners answered Respondents' complaint, denying that they had violated the Copyright Act, and counterclaimed. Pet. App. 5a, 29a; J.A. 32-49, 545-46. The counterclaims asserted that (1) Respondents had each attempted to expand their copyrights through various acts, such as the use of overbroad copyright warnings, in violation of Section 2 of the Sherman Act and Section 1 of California's Cartwright Act; (2) Respondents' concerted refusal to grant Petitioners a license or settle the litigation constituted a conspiracy in violation of Section 1 of the Sherman Act and Section 1 of California's Cartwright Act; (3) the filing of the copyright lawsuit was itself illegal and an illegal act in furtherance of that con-

spiracy; and (4) the filing of the lawsuit was not protected under the *Noerr-Pennington* doctrine because it fell within the doctrine's sham exception. J.A. 36-45; Pet. App. 5a. Petitioners asked for a jury trial on the counterclaims. J.A. 49.

C. The Course of the Proceedings and Disposition Below

In support of the counterclaims, Petitioners sought to discover evidence regarding the alleged conspiracies and the intent with which the copyright lawsuit was being pursued. J.A. 76-89; Defendants' First Cross-Appeal Brief at 6. Respondents did not argue that Petitioners' counterclaim was insufficient to satisfy the standards of good faith pleading delineated in Fed. R. Civ. P. 11. Nor did they move to dismiss the counterclaim pursuant to Fed. R. Civ. P. 12(b)(6) on the theory that it failed to state a claim upon which relief could be granted. Instead, Respondents answered the counterclaim. J.A. 50-57. However, Respondents then objected on numerous grounds to each and every discovery request propounded by Petitioners. J.A. 63-93, 152-66, 457. As a result of Respondents' recalcitrance in refusing to provide discovery, Petitioners filed motions to compel discovery on two occasions. Pet. App. 5a; J.A. 58-93, 97-98; Defendants' First Cross-Appeal Brief at 7-8; Appendix to Defendants' First Cross-Appeal Brief at 45-200, 226-263.

The district court neither granted Petitioners' repeated motions to enforce their discovery requests nor sustained Respondents' objections. Instead, it postponed all discovery regarding the counterclaims pending resolution of the underlying copyright lawsuit. Pet. App. 5a. After the copyright suit and its appeal were resolved in Petitioners' favor, Petitioners again sought

to have the court enforce its counterclaim discovery. *Id.*⁵ Astonishingly, on March 1, 1990, the district court granted summary judgment on the merits against Petitioners without permitting any discovery regarding the counterclaims. Pet. App. 6a, 23a, 25a.

In a brief opinion, the district court observed that "the manner in which the case was presented" led the court to find that the "plaintiff was seeking and expecting a favorable judgment" and, on this basis, the court found further that "there was probable cause for bringing the action, regardless of whether the issue was considered a question of fact or of law." Pet. App. 24a. In response to Petitioners' objection that they had not been permitted to conduct any discovery regarding Respondents' intent in pursuing the copyright lawsuit, nor to gather any other evidence pertaining to the conspiracies that Petitioners alleged, the district court reasoned that discovery was unnecessary because intent was irrelevant. In the court's view, the *Noerr-Pennington* doctrine immunized Respondents regardless of the intent with which they

⁵ After the Ninth Circuit's mandate in the copyright action was lodged with the district court, J.A. 493-94 (see also Appendix to Defendants' First Cross-Appeal Brief 359-60), the district court entered a minute order reopening the case on Petitioners' antitrust counterclaims. J.A. 495-96. At a scheduling conference held on April 17, 1989, the district court noted that "the defendant and counter-claimant [Petitioners] is entitled to discovery to try to establish this lack of good faith [on the part of Respondents in filing and prosecuting the underlying copyright infringement action]" J.A. 511. See also J.A. 515, 520, 521. Petitioners and Respondents agreed on a discovery schedule which was set forth in the court's Scheduling Order of April 17, 1989, establishing a discovery cut-off date of February 28, 1990. J.A. 523-26.

pursued their copyright claim. Pet. App. 24a.⁶ Furthermore, distinguishing allegations of sham in other cases (on the grounds that here the court had the opportunity to observe the manner in which the case was prosecuted), the court, on the basis of its own observation alone, made a controlling determination as to whether Respondents' lawsuit fell within the sham exception. Pet. App. 24a-25a.

On appeal, Petitioners argued that the district court erred in its grant of summary judgment by denying them the opportunity to conduct discovery regarding all of their allegations of anticompetitive conduct, not merely the single allegation on which the district court had focused (i.e., that Respondents' copyright claims fell within the sham exception to the *Noerr-Pennington* doctrine). Pet. App. 7a; Defendants' First Cross-Appeal Brief at 16-26. Petitioners also argued that the district court erred by misconstruing this Court's teachings regarding the sham exception. Defendants' First Cross-Appeal Brief at 27-36.

The Ninth Circuit divided Petitioners' counterclaim allegations into two discrete issues: (1) whether Petitioners were entitled to discovery on their sham claim; and (2) whether Petitioners were entitled to discovery on their conspiracy and attempted monopolization claims. Pet. App. 7a. The Ninth Circuit further subdivided the latter claims, separating out Petitioners' allegations concerning the concerted re-

⁶ In denying discovery, the district court did not attempt to reconcile Respondents' prior legislative efforts (seeking revision of the copyright law to ensure that hotel rooms are considered public areas) and their position in other cases (that hotel rooms are private areas) with the position Respondents took in bringing their copyright claims against Petitioners.

fusal to license. Pet. App. 8a-9a. In fact, however, Petitioners' counterclaims pleaded both that the filing of the copyright suit was an unlawful conspiracy and that the filing was part of a larger conspiracy and attempt to monopolize, in part evidenced by the concerted refusal to license. J.A. 36-48.

Nevertheless, after separating Petitioners' allegations, the Ninth Circuit ruled that Petitioners were not entitled to discovery on their claims other than sham because they had failed to come forward with sufficient evidence of injury. Pet. App. 9a. Petitioners argued that they were unable to come forward with sufficient evidence because these facts were within Respondents' control and Petitioners had been denied discovery. The Ninth Circuit disagreed, ruling that Petitioners "did not need formal discovery procedures to establish resulting antitrust injury to the resort or to ascertain the basis for other hotels' rejection of Irwin's video system." Pet. App. 9a.

Petitioners also argued that, even without discovery, Petitioners had come forward with sufficient evidence regarding Respondents' concerted refusal to license Petitioners to withstand summary judgment. Defendants' First Cross-Appeal Brief at 26. The Ninth Circuit ruled that because this refusal arose in the context of settlement, it could not serve as an independent basis for liability, and its probative value would rise or fall with Petitioners' sham claim. Pet. App. 9a. The court did not explain why this and evidence of Petitioners' other claims could not also have probative value on Petitioners' broader claim that the Studios conspired through the filing of the suit and other means to prevent them from selling video disc systems to hotel chains.

Having thus disposed of all of Petitioners' other claims for want of sufficient evidence while simultaneously upholding the lower court's denial of Petitioners' requests for discovery, the Ninth Circuit then upheld the lower court's ruling that Petitioners were also not entitled to discovery on their sham claim, because the underlying copyright suit was "not baseless" as a matter of law. Pet. App. 15a-18a. The Ninth Circuit reasoned that baselessness was a prerequisite to invoking the sham exception, holding that:

[A]n antitrust plaintiff must make a two-part showing to support a finding of sham: (1) that the suit is baseless - a legal question; and (2) that the suit was brought as part of an anticompetitive plan external to the underlying litigation - a question of fact.

Pet. App. 15a-16a (citation omitted). As discussed below, in this the Ninth Circuit erred.

SUMMARY OF ARGUMENT

A lawsuit brought with indifference to its outcome falls within the sham exception to the *Noerr-Pennington* doctrine. Litigants pursuing sufficient and well-pleaded allegations of sham may not be denied discovery regarding their opponent's subjective intent—that is, whether their opponents were indifferent to the outcome of the lawsuit—on the grounds that the lawsuit was "not baseless" as a matter of law. Lawsuits that are "not baseless" may nevertheless fall within the sham exception where they are pursued with indifference to their outcome and for reasons such as directly to burden and harass a competitor and thereby unreasonably restrain competition. When a litigant's purposes are fully served as

a direct result of the prosecution of the lawsuit, as opposed to any outcome the court might direct, there is a sham.

In this case, the Ninth Circuit erred in holding that an antitrust plaintiff must, as a threshold prerequisite to obtaining any discovery, establish that a sham lawsuit is baseless as a matter of law or suffer dismissal of its claims. Petitioners are entitled to have their counterclaims reinstated and to pursue the discovery they sought, including that which the lower court compartmentalized and denied because of Petitioners' supposed failure to show injury or because it arose in the context of settlement, because pursuit of that discovery would be reasonably calculated to lead to admissible evidence of sham under the properly formulated standard of subjective intent.

ARGUMENT

A lawsuit brought with indifference to its outcome falls within the sham exception to the *Noerr-Pennington* doctrine. Indifference constitutes sham because when litigants are indifferent to the outcome, their purposes are fully served directly by initiating or prosecuting the lawsuit, rather than by any relief the court might order.

A. The Ninth Circuit's Holding in This Case is at Odds With The Opinions of This Court.

None of the policies underpinning the *Noerr-Pennington*⁷ doctrine requires or even suggests that

⁷ The *Noerr-Pennington* doctrine, derived from this Court's decisions in *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961) and *United Mine Workers of*

immunity from the Sherman Act is appropriate where antitrust conspirators seek to implement or further their conspiracy by burdening a competitor with the costs and other consequences of defending a lawsuit, and are indifferent to the relief ostensibly sought. This Court has consistently held that the constitutional right to petition a court (or an administrative agency, or a legislature) does not extend to the direct imposition of the burdens and other effects of the petitioning activity as an end in itself.

The constitutional basis for the doctrine depends on governmental action. If a party's subjective intent is indifferent to the government outcome and is focused instead on the direct results of its own private actions in the petitioning process, the party itself has rendered the Constitution and its protections irrelevant. Whether the underlying suit is baseless or "not baseless" as a matter of law, while perhaps relevant to

Am. v. Pennington, 381 U.S. 657 (1965), provides that "the federal antitrust laws . . . do not regulate the conduct of private individuals in seeking anticompetitive action from the government. . . . 'Noerr shields from the Sherman Act a concerted effort to influence public officials regardless of intent or purpose.' " *Columbia v. Omni Outdoor Advertising, Inc.*, 111 S.Ct. 1344, 1354 (1991) (quoting *Pennington*, 381 U.S. at 670).

This Court first extended the teachings of *Noerr* and *Pennington* to include concerted efforts to litigate in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), and also made explicit in that case the dictum in *Noerr* that efforts "ostensibly directed toward influencing governmental action . . . [that are] a mere sham to cover what is nothing more than an attempt to interfere directly with the business relationships of a competitor," *Noerr*, 365 U.S. at 144, are not outside the reach of the Sherman Act. *California Motor*, 404 U.S. at 516.

the ultimate question of a party's subjective intent, is not by itself controlling.

In *Noerr*, this Court observed that the legality of petitioning activity under the antitrust laws does not depend upon the petitioner's anticompetitive animus toward its opponent. *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 139 (1961). Correspondingly, in *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965), this Court held that petitioning activity genuinely intended to achieve a legislative result could not give rise to antitrust liability, even if the petitioning activity were part of a larger conspiracy. *Id.* at 670.

At the same time, this Court has always recognized that some petitioning conduct, "ostensibly directed toward influencing governmental action," *Noerr*, 365 U.S. at 144, may in fact be undertaken with indifference to that governmental action, seeking instead to use (and thereby to abuse) the governmental process as a means of inflicting injury directly on competitors.⁸ Private conduct of this nature, "a mere sham," *id.*, is not genuine governmental petitioning activity worthy of constitutional protection. It should instead be judged under the standards set forth in the Sherman Act.⁹

In distinguishing between protected and unprotected conduct, this Court has identified two different levels of intent: the intent to injure a competitor indirectly, by genuinely seeking a governmental out-

⁸ See, e.g., *Noerr*, 365 U.S. at 144; *California Motor Transport*, 404 U.S. at 511-15.

⁹ See, e.g., *Noerr*, 365 U.S. at 144; *California Motor Transport*, 404 U.S. at 515.

come or action contrary to the interests of the competitor (which is protected)¹⁰; and the intent to injure a competitor directly, as a result of imposing on it the costs and burdens that flow from forced participation in a governmental process (which is not protected). Building on this distinction, this Court has steadily crafted a body of law that (1) acknowledges the paramount role of subjective intent in determining whether a petitioner is genuinely interested in the governmental result ostensibly sought; and (2) recognizes the role of the trier of fact in evaluating and balancing various forms of evidence, subjective as well as objective, in order to determine a petitioner's intent.

In *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), this Court held that petitioning activity that itself barred access to governmental processes by others and was brought "with or without probable cause, and regardless of the merits of the cases," *id.* at 512, was not entitled to constitutional protection. The Court noted that "a purpose or intent . . . 'to discourage and ultimately to prevent the respondents from invoking' the processes of the administrative agencies and courts . . . [would] fall within the [sham] exception to *Noerr*,"

¹⁰ See, e.g., *Noerr*, 365 U.S. at 139:

The right of the people to inform their representatives in government of their desires with respect to the passage or enforcement of laws cannot properly be made to depend upon their intent in doing so. It is neither unusual nor illegal for people to seek action on laws in the hope that they may bring about an advantage to themselves and a disadvantage to their competitors.

id. (quoting *id.* at 518 (Stewart and Brennan, JJ., concurring)). However, the Court could not determine what the evidence would show in that particular case because the complaint had been improperly dismissed for failure to state a claim. *Id.* at 515. On their face, the Court observed, the allegations of the complaint, taken as true for purposes of the motion to dismiss, fell within the sham exception. *Id.* at 515-16. Similarly, in *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973), this Court observed that "repetitive lawsuits carrying the hallmark of insubstantial claims," *id.* at 380, would fall within the sham exception where the purpose of the prosecution of the suits was "delaying and preventing the establishment of [competing] municipal electrical systems," *id.* at 379, a direct result of the delay inherent in litigation, and not the judgments of courts.

In *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623 (1977), this Court was called upon to determine whether Section 16 of the Clayton Act, 15 U.S.C. § 26, and the principles of sham litigation provided an exception to the Anti-Injunction Act, 28 U.S.C. § 2283, which otherwise prohibits a federal court's enjoining state court proceedings. While finding no exception to the anti-injunction statute, the opinions of the Court's plurality observed that repetitive sham litigation in the state courts could be a predicate to the enjoining of future proceedings, but not pending ones. *Id.* at 635 n.6 (Rehnquist, Stewart and Powell, JJ.), 644 and n.* (Blackmun, J., and Burger, C.J., concurring in the result).

An analogous reluctance to enjoin ongoing proceedings and, as a result, directly interfere with a party's constitutionally-protected right to access to

the courts, led the Court to conclude in *Bill Johnson's Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731 (1983), that a citizen's First Amendment right of access bars the NLRB from enjoining state court suits that are not legally baseless. *Id.* at 743-44.¹¹ Furthermore, the Court observed that the Constitution prevents the NLRB from usurping the fact-finding authority of the state court or jury with respect to whether a claim is a sham. Determining the impropriety of a suit was held to be a question of fact, rather than law. That question must be decided in the forum in which the question arises and by the trier of fact chosen by the parties.

When a suit presents genuine factual issues, the state plaintiff's First Amendment interest in petitioning the state court for redress of his grievance, his interest in having the factual dispute resolved by a jury, and the State's interest in protecting the health and welfare of its citizens, lead us to construe the [National Labor Relations] Act as not permitting the Board to usurp the traditional factfinding function of the state-court jury or judge.

Id. at 745.

In *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988), the Court emphasized that *Noerr-Pennington* protection depends upon the context and nature of the restraint at issue, *id.* at 499,

¹¹ Lack of a reasonable basis is a prerequisite to an injunction, but that does not mean that a "not baseless" lawsuit cannot also be a sham where no injunction is sought and, therefore, no constitutional rights are in peril of being enjoined.

and that where, independent of any government action, an anticompetitive restraint results directly from private action, there is no immunity from the antitrust laws. *Id.* at 499-500 and n.4. Most recently, in *Columbia v. Omni Outdoor Advertising, Inc.*, 111 S.Ct. 1344 (1991), the Court reasoned that "[t]he 'sham' exception . . . encompasses situations in which persons use the governmental process—as opposed to the outcome of the process—as an anticompetitive weapon." *Id.* at 1354. The Court elaborated with respect to the two distinct levels of intent as follows:

A "sham" situation involves a defendant whose activities are "not genuinely aimed at procuring favorable government action" at all, not . . . [a defendant] "who 'genuinely seeks to achieve his governmental result, but does so through improper means' "

Id., quoting *Indian Head*, 486 U.S. at 500 n.4, 508 n.10 (respectively) (emphasis in *Indian Head*) (citations omitted).

In sum, at no point in its *Noerr-Pennington* jurisprudence has this Court held that a legal determination of baselessness is a predicate to finding that petitioning activity is a sham. Moreover, at no point has this Court held that a suit that is "not baseless" cannot, as a matter of law, also be a sham. Nor has this Court ever held that discovery can be denied with respect to the context and nature of the circumstances under which, and therefore the subjective intent with which, such a suit was brought.

B. Other Lower Courts Are At Odds With The Ninth Circuit.

The lower courts have differed significantly in their interpretations of the roles that objective legal base-

lessness and subjective intent play in sham analysis.¹² The Ninth Circuit in this case below and one panel

¹² Following this Court's *Noerr* decision in 1961, the federal courts have been "struggl[ing] to give specific meaning to the *Noerr-Pennington* doctrine's sham exception," with varying results. *Westmac, Inc., v. Smith*, 797 F.2d 313, 320 (6th Cir. 1986) (Merritt, J., dissenting), *cert. denied*, 479 U.S. 1035 (1987). As an organizational tool, it is useful to view the decisions of the various circuit courts as arrayed along a spectrum defined by the role which motive and intent play in determining sham. So organized, it becomes apparent that, with very few exceptions, the differences among the circuits reflect more the fact-specific nature of the inquiry than any theoretical disagreement with the principle that the ultimate objective of a *Noerr-Pennington* inquiry is a determination of the subjective intent of a petitioner.

At one extreme stands the decision of the Ninth Circuit in this case, holding that an objectively "not baseless" lawsuit can never be a sham, regardless of whether the litigant is indifferent to the outcome of the litigation. Pet. App. 12a. At the opposite extreme stand decisions of the Fifth (see, e.g., *In re Burlington Northern, Inc.*, 822 F.2d 518 (5th Cir. 1987), *cert. denied*, 484 U.S. 1007 (1988); *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358 (5th Cir. 1983)), Sixth (see, e.g., *Westmac*), and Seventh (see, e.g., *Premier Elec. Constr. Co. v. Nat'l Elec. Contractors Ass'n*, 814 F.2d 358 (7th Cir. 1987); *Winterland Concessions Co. v. Trela*, 735 F.2d 257 (7th Cir. 1984); *MCI Communications Corp. v. Am. Tel. & Tel. Co.*, 708 F.2d 1081 (7th Cir.), *cert. denied*, 464 U.S. 891 (1983); *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir. 1982), *cert. denied*, 461 U.S. 958 (1983)) Circuits, which balance various objective and subjective criteria, in some cases raising presumptions and shifting burdens of proof based upon evidence deemed especially indicative of intent, all with the goal of determining a petitioner's interest or disinterest with the outcome of the governmental process.

Arrayed between these extremes are decisions of the Second (see, e.g., *Juster Assoc. v. Rutland*, 901 F.2d 266 (2d Cir. 1990); *Litton Systems, Inc. v. Am. Tel. & Tel. Co.*, 700 F.2d 785 (2d

of the Fourth Circuit (in the *Eden Hannon* case) are at one extreme end of the spectrum, holding that subjective intent is irrelevant unless a case is baseless as a matter of law, or at least unsuccessful.

At the other end of the spectrum are courts such as the Seventh Circuit, which has observed:

The line [between *Noerr-Pennington* - protected litigation and sham litigation] is crossed when . . . [a litigant's] purpose is not to win a favorable judgment against a competitor but to harass him, and deter others, by the process itself - regardless of outcome - of litigating.

Grip-Pak, Inc. v. Illinois Tool Works, Inc., 694 F.2d 466, 472 (7th Cir. 1982), *cert. denied*, 461 U.S. 958 (1983). In *Grip-Pak*, Judge Posner enumerated sev-

Cir. 1983), *cert. denied*, 464 U.S. 1073 (1984)), Third (see, e.g., *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984)), Fourth (see, e.g., *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556 (4th Cir. 1990), *cert. denied*, 111 S.Ct. 1414 (1991); *Hosp. Bldg. Co. v. Trustees of Rex Hosp.*, 791 F.2d 288 (4th Cir. 1986)), Eighth (see, e.g., *South Dakota v. Kansas City S. Indus., Inc.*, 880 F.2d 40 (8th Cir. 1989), *cert. denied*, 493 U.S. 1023 (1990); *First Am. Title Co. of South Dakota v. South Dakota Land Title Ass'n*, 714 F.2d 1439 (8th Cir. 1983), *cert. denied*, 464 U.S. 1042 (1984); *Mark Aero, Inc. v. Trans World Airlines, Inc.*, 580 F.2d 288 (8th Cir. 1978)), Tenth (see, e.g., *Hydro-Tech Corp. v. Sunstrand Corp.*, 673 F.2d 1171 (10th Cir. 1982)), Eleventh (see, e.g., *St. Joseph's Hosp., Inc. v. Hosp. Corp. of Am.*, 795 F.2d 948 (11th Cir. 1986)), and District of Columbia (see, e.g., *Fed. Prescription Service, Inc. v. Am. Pharmaceutical Ass'n*, 663 F.2d 253 (D.C. Cir. 1981), *cert. denied*, 455 U.S. 928 (1982)) courts of appeal, with all but the Fourth and possibly the Tenth Circuits clustered close to the position defined by the Fifth, Sixth and Seventh Circuits.

eral factors that might motivate a litigant "to hurt a competitor not by getting a judgment against him, which would be a proper objective, but just by the maintenance of the suit, regardless of its outcome," *id.*, citing such possibilities as "us[ing] pretrial discovery to discover its competitor's trade secrets; or hop[ing] that the competitor would be required to make public disclosure of its potential liability in the suit and that this disclosure would increase the interest rate that the competitor had to pay for bank-financing; or . . . impos[ing] heavy legal costs on the competitor in the hope of deterring entry by other firms." *Id.*

This reasoning is to be distinguished from the superficially similar but nonetheless flawed approach of examining intent in terms of whether a plaintiff had a reasonable expectation of achieving a favorable ruling. As Judge Posner points out, even meritorious litigation, in which there might well be a reasonable expectation of achieving a favorable result, may nevertheless be brought for the improper purpose of invoking the machinery of the process to burden or harass, in violation of the antitrust laws. *Id.* The expected or reasonably foreseeable outcome of the litigation might be probative, but it should not be determinative, of the critical issue of the litigant's subjective intent in bringing the action. As the Fifth Circuit recognized in *Burlington Northern*:

[I]t is not dispositive that the ultimate relief will be beneficial to the petitioner and will serve his purposes. It must be shown that the desire for relief was a significant factor underlying the actual bringing and prosecu-

tion of the suit. This requires an examination of the litigant's intent.

* * *

[O]bjective reasonableness - as manifested by the court's grant of relief on the claim - should not protect a person who was not genuinely exercising his right to petition.

In re Burlington Northern, Inc., 822 F.2d 518, 528-29 (5th Cir. 1987), *cert. denied*, 484 U.S. 1007 (1988).

For the same reasons, a bright line test of intent that focuses on whether a litigation ultimately is won or lost, while superficially appealing, is similarly unavailing of the core concept of intent.¹³

The determinative inquiry is not whether the suit was won or lost, but whether it was significantly motivated by a genuine desire for judicial relief. Of course, the success of the claim presented is persuasive evidence that the litigant in fact wanted the relief. It is highly unlikely that a party with a meritorious claim will not be significantly motivated by a desire to obtain relief on that claim. . . . But reliance on the success of the earlier claim cannot substitute for proper consideration of any evidence the plaintiff might provide of the petitioner's motivation.

¹³ Moreover, even were such a bright line test to have been applied in this case, it would not have supported Respondents, who were unsuccessful in the underlying copyright litigation.

Id. at 528.¹⁴ In other words, what must ultimately be determinative is whether the plaintiff was indifferent to the possibility of even a favorable outcome and, instead, brought the litigation for another, improper purpose: to directly burden and harass a competitor.

C. A Mechanical Reliance on Purely Objective Criteria To Distinguish Sham Petitioning Would Permit Abusive Results.

Courts and antitrust commentators have highlighted the pitfalls of a rigid application of a purely objective standard for sham petitioning. The *Burlington Northern* court, for example, in rejecting the railroads' plea that successful lawsuits could never be sham petitioning, reasoned that courts should not be restricted in hearing evidence as to motive or intent simply on the basis of what one objective test might indicate as to a litigant's purpose.

We do not believe the difficulty of inquiring into intent justifies a different rule; if a plaintiff can adduce sufficient evidence to overcome the strong inference that persons with meritorious claims wish to obtain relief

¹⁴ See also Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 203.1d at p. 30 (Supp. 1991); Stephen Calkins, *Developments in Antitrust and the First Amendment: The Disaggregation of Noerr*, 57 *Antitrust L. J.* 327, 362 (1988) ("Even some of those who believe that success [on the merits of the underlying litigation] is an important consideration would let it erect only a strong presumption, and this seems the better view . . ."); James D. Hurwitz, *Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr*, 74 *Geo. L. J.* 65, 108 (1985) ("It is appropriate to draw a strong, although rebuttable, presumption that petitioning efforts are not a sham if they succeed on the merits . . .").

upon them we believe he should prevail. We cannot endorse a rule that would require a court to blindly extend [Noerr-Pennington] protection in the face of evidence that the party was in fact not exercising the protected right to petition.

Id. at 529 n.8 (emphasis supplied).

Relying on objective reasonableness - the fact that a lawsuit raises a colorable claim - to determine whether petitioning conduct is deserving of *Noerr-Pennington* protection insulates from challenge under the antitrust laws a broad range of conduct that this Court never intended to protect. As Judge Posner noted in *Grip-Pak*:

If all nonmalicious litigation [i.e., "lawsuits raising colorable claims," *Westmac, Inc. v. Smith*, 797 F.2d 313, 320 (6th Cir. 1986) (Merritt, J., dissenting), *cert. denied*, 479 U.S. 1035 (1987)] were immunized from government regulation by the First Amendment, the tort of abuse of process would be unconstitutional - something that, so far as we know, no one believes. . . . If abuse of process is not constitutionally protected, no more should litigation that has an improper anticompetitive purpose be protected, even though the plaintiff has a colorable claim.

* * * *

The existence of a tort of abuse of process shows that it has long been thought that litigation could be used for improper purposes even when there is probable cause for the litigation; and if the improper purpose is to

use litigation as a tool for suppressing competition in its antitrust sense, it becomes a matter of antitrust concern.

Grip-Pak, 694 F.2d at 471-472 (citation omitted).

Conversely, a mechanically-applied objective standard may also operate to condemn as a sham some petitioning activity that should not be so labelled. For example, in the circumstance of an unsuccessful outcome, "subjecting innovative legal efforts to an objective standard - and permitting antitrust challenge with potential treble damage penalties against those that do not meet it - could forestall important sources of legal development. . . . Moreover, unsuccessful efforts in one governmental context may stimulate favorable responses in other contexts." Hurwitz, *supra* n.14 at 98.

Thus, no one evidentiary presumption - rebuttable or irrebuttable - should operate mechanically to withdraw from the trier of fact the determination of whether petitioning activity is genuine and within the confines of the First Amendment guarantee.¹⁵ Rather, the trier of fact should remain free to evaluate probative evidence going to the question of indifference. In the absence of direct evidence, various objective criteria may be useful in deducing whether the litigant was indifferent to the outcome; but no single fact or criterion should be determinative to the exclusion of other relevant facts.

¹⁵ Indeed, no single evidentiary presumption should be sufficient for determining whether the petitioning conduct is subject to constitutional protection. To hold otherwise would be to trivialize the importance of the constitutional guarantee.

As always in deciding questions of intent, the court [as trier of fact] considers all of the surrounding circumstances and assigns to each circumstance an appropriate weight, dependent upon the function and significance of each. . . . The distillation of all of the applicable factors in each case governs the decision as to true intent, whether it is to directly injure competitors rather than to influence governmental action.

Mark Aero, Inc. v. Trans World Airlines, Inc., 580 F.2d 288, 297 (8th Cir. 1978). See also *Westmac*, 797 F.2d at 318-19; *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358, 1371-72 and n.45 (5th Cir. 1983); Hurwitz, *supra* n.14 at 125-26. Courts have observed that "[d]etermining what efforts are not bona fide petitions to the government . . . is a difficult task," *Burlington Northern*, 822 F.2d at 528 (alteration in original) (quoting *Greenwood Utilities Comm'n v. Mississippi Power Co.*, 751 F.2d 1484, 1498 (5th Cir. 1985), "but no more so than in many other areas of antitrust law." *Grip-Pak*, 694 F.2d at 472. Thus, the opinions of lower courts readily demonstrate that the necessary inquiry is neither so formless nor so burdensome as to ensnare the trier of fact in a bottomless morass.¹⁶

D. The Ninth Circuit's Error in This Case.

In this case, Petitioners counterclaimed that their rivals had conspired to prevent Petitioners from of-

¹⁶ See, e.g., *Burlington Northern*, 822 F.2d at 527-29; *Westmac*, 797 F.2d at 318-20; *Hosp. Bldg. Co.*, 791 F.2d at 292-93; *MCI Communications*, 700 F.2d at 1155; *Coastal States*, 694 F.2d at 1371-73 and nn.45 & 46; *Mark Aero*, 580 F.2d at 297; Hurwitz, *supra* n.14 at 125-26.

fering an in-hotel room movie viewing service and related equipment that would compete with a service in which Respondents had an important financial interest. Petitioners contended that the filing of a burdensome and ultimately unsuccessful copyright lawsuit that would eventually take seven years to resolve,¹⁷ and which Respondents refused to settle, was itself illegal, and an act in furtherance of Respondents' conspiracy.¹⁸ In addition, Petitioners claimed that Respondents' refusal to license Petitioners; their filing or threatening to file similar copyright actions to intimidate potential customers of Petitioners; their entering into restrictive distribution agreements prohibiting the rental of videos except for "home use;" their utilizing copyright labels on their video cassettes that were misleading with respect to the "home use" only restrictions; and their publishing advertisements in hotel trade journals, warning hotels and similar accommodations not to use Respondents' copyrighted

¹⁷ Cf. *Boulware v. State of Nevada*, 1992-1 Trade Cas. (CCH) ¶ 69,771 at p. 67,540 (9th Cir. Mar. 27, 1992) ("This is not a case where the antitrust defendant could have used the lawsuit as a tool to impose costs and delay, to tarnish the reputation of a competitor, or to cripple its adversary's ability to obtain needed financing. Only by obtaining an injunction could NCSC have hoped to keep Boulware out of the market for a significant period of time. Supporting that conclusion is the fact that the suit was prosecuted expeditiously; only one month elapsed from the time NCSC intervened . . . until the plaintiffs obtained a preliminary injunction . . .").

¹⁸ Respondents brought this action only after repeated and explicit failure in each of their efforts to secure legislative relief on this issue, and after explicitly conceding (in other judicial proceedings on the same issue) that hotel rooms are not public areas for purposes of the copyright laws. See *supra* pp. 3-4 n.1, 5-6 & n.4.

materials in hotel guest rooms, were all acts constituting and in furtherance of the conspiracy, in violation of the Sherman Act. Pet. App. 7a-8a; J.A. 38, 546, 559-600.

Petitioners contend that, if Respondents were in fact indifferent to the outcome of their failed copyright case, however hard they may have appeared to fight once they finally decided to fight,¹⁹ and if in fact they had decided to bring it for the direct purpose of burdening Petitioners and deterring them and others from competing with Respondents - then the sham exception applies, and the alleged conspiracy to file and prosecute the case would not be immune from scrutiny under the Sherman Act. Whether Respondents' conduct constituted a violation of the Sherman Act is, of course, a separate question, the resolution of which must await appropriate discovery by all parties. What Petitioners seek but were denied below is the right to pursue discovery on their well-pleaded and sufficient antitrust claims.

The lower court's determination that Petitioners were not entitled to discovery on these issues, and its determination that, as a matter of law, there was no sham, deprives Petitioners of their right to have a factfinder, in this case a jury, make the findings of fact essential to a determination of the question

¹⁹ Hard-fought lawsuits, with pitched battles over such preliminary matters as making discovery available to adverse parties, will, perforce, take longer to resolve and will impose greater burdens than those more carefully calculated to reach a swift result. See *supra* n.17.

of sham.²⁰ Just as in *Bill Johnson's*, 461 U.S. at 744-46, where the NLRB usurped the function of the state court as trier of fact, so too did the district court in this action usurp the function of the jury as trier of fact, and thus deny Petitioners their right to choose a trier of fact, and to have that trier of fact evaluate the evidence and make its own determinations of fact. The district court here ruled:

The claim that the plaintiff set forth in its complaint was adjudicated by this court. It was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. . . . *I find that there was probable cause for bringing the action, regardless of whether the issue was considered a question of fact or of law.*

Pet. App. 24a (emphasis supplied).

Under the proper subjective intent standard, Petitioners' discovery should not be limited by the rigid compartmentalization of Petitioners' conspiracy allegations imposed by the Ninth Circuit in conjunction with its flawed approach to the sham issue. Pet. App. 8a-9a. Dealing with each of Petitioners' allegations seriatim and in isolation from one another violated a fundamental rule laid down by this Court in antitrust cases.

[P]laintiffs should be given the full benefit of their proof without tightly compartmentalizing the various factual components and wip-

²⁰ While Respondents did not attach a jury demand to their Complaint, J.A. 18-19, Petitioners in their Answer and Counterclaim did demand a trial by jury "of all issues triable of right by jury in the . . . action." J.A. 49.

ing the slate clean after scrutiny of each. "... [T]he character and effect of the conspiracy are not to be judged by dismembering it and viewing its separate parts, but only by looking at it as a whole...."

Continental Ore Co. v. Union Carbide & Carbon Corp., 370 U.S. 690, 699 (1962) (alteration in original) (quoting *American Tobacco Co. v. United States*, 147 F.2d 93, 106 (6th Cir. 1944), *aff'd*, 328 U.S. 781 (1946)).

Discovery of the reasons why Respondents would not settle the unsuccessful copyright action would be relevant to (or would likely lead to the discovery of admissible evidence on the issue of) whether they brought the lawsuit to grind down Petitioners and, by so doing, to make an example of them and deter other would-be competitors. Correspondingly, discovery of Respondents' views of the injuries they were inflicting on Petitioners, and of their ability and success in influencing the large hotel chains not to do business with Petitioners, would be relevant to (or would be reasonably calculated to lead to the discovery of admissible evidence regarding) Respondents' subjective intent in prosecuting the case. Discovery of the reasons why Respondents brought this action in a judicial forum, having lost the argument regarding the "public" or private nature of hotel rooms several times in the legislative arena (and having admitted in other litigation that an essential element of their proof was lacking) would also be relevant on the issue of intent.

Admittedly, this Court has emphasized the value of summary procedures in federal litigation,²¹ including

²¹ See, e.g., *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242

antitrust cases.²² In the context of a summary judgment coupled with a denial of discovery, however, the teaching of *Poller v. Columbia Broadcasting System, Inc.*, 368 U.S. 464 (1962) about the difficulty of dealing in a summary fashion with conflicting claims of motive and intent retains the force of simple, undeniable logic.

We believe that summary procedures should be used sparingly in complex antitrust litigation where motive and intent play leading roles, the proof is largely in the hands of the alleged conspirators, and hostile witnesses thicken the plot.

Id. at 473. More recently, this Court has stressed the need for antitrust plaintiffs to have the opportunity to take discovery on their claims prior to dismissal.

[I]n antitrust cases . . . dismissals prior to giving the plaintiff *ample opportunity for discovery* should be granted very sparingly. . . . [, creating what the Court acknowledged as a] concededly rigorous standard . . . [for the dismissal of antitrust actions].

(1986); *Celotex Corp. v. Catrett*, 477 U.S. 317 (1986).

In our view, the plain language of Rule 56(c) mandates the entry of summary judgment, *after adequate time for discovery* and upon motion, against a party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which the party will bear the burden of proof at trial.

Celotex, 477 U.S. at 322 (emphasis supplied).

²² See, e.g., *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 585-88 (1986).

Hosp. Bldg. Co. v. Trustees of Rex Hosp., 425 U.S. 738, 746 (1976) (citation to and quotation from *Poller* omitted) (emphasis supplied).²³

For the Ninth Circuit to hold both that Petitioners failed to come forward with sufficient evidence to withstand summary judgment and that they were not entitled to any discovery on well and sufficiently-pleaded counterclaims is so illogical that the simple recital of the point carries with it its own argument for rejection. The question was not whether "self-help" discovery methods might suffice, but rather whether Petitioners were entitled to the usual "formal discovery procedures" (Pet. App. 9a) accorded by the Federal Rules.

CONCLUSION

For all of the reasons set forth above, in the Petition for a Writ of Certiorari, and in Petitioners' Reply Brief, the decision of the Ninth Circuit should

²³ See also *Chipanno v. Champion Int'l Corp.*, 702 F.2d 827, 831 n.2 (9th Cir. 1983); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983) ("Courts may properly be more critical in reviewing complaints which invoke the sham exception to the *Noerr-Pennington* doctrine since the conduct is presumptively protected by the first amendment, invoking here the right of access to the court. However, it is a question of fact in each instance whether an action is a genuine attempt to influence governmental action or is a mere sham.") (citation omitted); *Timberlane Lumber Co. v. Bank of America, N.T. & S.A.*, 549 F.2d 597, 602 (9th Cir. 1976) ("[W]e note that the Supreme Court has expressed disapproval of summary disposition in . . . 'complex antitrust litigation . . .'. . . Putting plaintiffs to the test in such cases without ample opportunity for discovery is particularly disfavored.") (quoting *Poller*, 368 U.S. at 473) (citation omitted).

be reversed and the matter remanded with instructions that the proper standard for evaluating claims of sham litigation involves subjective intent, a question of fact, not law, and that Petitioners are entitled to pursue the requested discovery on their well-pleaded federal and state law counterclaims.

May 14, 1992

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In the Supreme Court of the United States

OCTOBER TERM, 1991

PROFESSIONAL REAL ESTATE INVESTORS, INC., ET AL.,
PETITIONERS

v.

COLUMBIA PICTURES INDUSTRIES, INC., ET AL.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES
AND THE FEDERAL TRADE COMMISSION
AS AMICI CURIAE SUPPORTING RESPONDENTS

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QUESTION PRESENTED

Whether the sham exception to the *Noerr-Pennington* doctrine can apply to a single unsuccessful lawsuit, when the lawsuit, although not baseless, was brought for the purpose of inflicting injury from the judicial process without regard to the outcome.

TABLE OF CONTENTS

	Page
Interest of the United States and the Federal Trade Commission	1
Statement	2
Summary of argument	6
Argument:	
A. The sham exception to the <i>Noerr-Pennington</i> doctrine can apply to a single unsuccessful lawsuit even when the suit is not baseless	8
B. A proper formulation of the sham exception emphasizes objective as well as subjective factors that bear on the purpose of the lawsuit.....	16
C. Summary judgment was correctly granted in this case because petitioners failed to support a theory under which the sham exception would be applicable	25
Conclusion	28

TABLE OF AUTHORITIES

Cases:

<i>Allied Tube & Conduit Corp. v. Indian Head, Inc.</i> , 486 U.S. 492 (1988)	10, 12, 18
<i>Anderson v. Liberty Lobby, Inc.</i> , 477 U.S. 242 (1986)	23
<i>Bill Johnson's Restaurants, Inc. v. NLRB</i> , 461 U.S. 731 (1983)	12, 13
<i>Boulware v. Nevada</i> , 1992-1 Trade Cas. (CCH) ¶ 69,771 (9th Cir. 1992)	21
<i>Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.</i> , 429 U.S. 477 (1977)	24
<i>Burlington Northern, Inc., In re</i> , 822 F.2d 518 (5th Cir. 1987), cert. denied, 484 U.S. 1007 (1988)	16, 20, 22, 23
<i>California Motor Transport Co. v. Trucking Unlimited</i> , 404 U.S. 508 (1972)	4-5, 9, 10, 11
<i>City of Columbia v. Omni Outdoor Advertising, Inc.</i> , 111 S. Ct. 1344 (1991)	10, 12

IV

Cases—Continued:

Page

<i>Coastal States Marketing, Inc. v. Hunt</i> , 694 F.2d 1358 (5th Cir. 1983)	23
<i>Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.</i> , 365 U.S. 127 (1961)	3, 8, 9, 23
<i>Eastman Kodak Co. v. Image Technical Services, Inc.</i> , No. 90-1029 (June 8, 1992)	21, 25
<i>Franchise Realty Interstate Corp. v. San Francisco Local Joint Exec. Bd.</i> , 542 F.2d 1076 (9th Cir. 1976)	21
<i>Grip-Pak, Inc. v. Illinois Tool Works, Inc.</i> , 694 F.2d 466 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983)	13, 18, 22
<i>Herbert v. Lando</i> , 441 U.S. 153 (1979)	19
<i>Hudson River Sloop Clearwater, Inc. v. Department of the Navy</i> , 891 F.2d 414 (2d Cir. 1989) ..	28
<i>Hustler Magazine, Inc. v. Falwell</i> , 485 U.S. 46 (1988)	18
<i>Matsushita Elec. Indus. Co. v. Zenith Radio Corp.</i> , 475 U.S. 574 (1986)	25
<i>Monsanto Co. v. Spray-Rite Service Corp.</i> , 465 U.S. 752 (1984)	25
<i>New Motor Vehicle Bd. v. Orrin W. Fox Co.</i> , 439 U.S. 96 (1978)	12
<i>New York Times Co. v. United States</i> , 403 U.S. 713 (1971)	13
<i>Oregon Natural Resources Council v. Mohla</i> , 944 F.2d 531 (9th Cir. 1991)	26
<i>Otter Tail Power Co. v. United States</i> , 410 U.S. 366 (1973), on remand, 360 F. Supp. 451 (E.D. Minn. 1973), aff'd, 417 U.S. 901 (1974)	15
<i>Paterson-Leitch Co. v. Massachusetts Mun. Wholesale Elec. Co.</i> , 840 F.2d 985 (1st Cir. 1988)	28
<i>Razorback Ready Mix Concrete Co. v. Weaver</i> , 761 F.2d 484 (8th Cir. 1985)	25
<i>Société National Industrielle Aérospatiale v. United States District Court</i> , 482 U.S. 522 (1987)	19
<i>Sure-Tan, Inc. v. NLRB</i> , 467 U.S. 883 (1984)	12
<i>Trucking Unlimited v. California Motor Transport Co.</i> , 1967 Trade Cas. (CCH) ¶ 72,298 (N.D. Cal. 1967)	11

V

Cases—Continued:

Page

<i>United Mine Workers v. Pennington</i> , 381 U.S. 657 (1965)	3, 20
<i>United States v. Otter Tail Power Co.</i> , 331 F. Supp. 54 (D. Minn. 1971), vacated, 410 U.S. 366 (1973)	15
<i>United States v. Zolin</i> , 491 U.S. 554 (1989)	20
<i>University of Pennsylvania v. EEOC</i> , 493 U.S. 182 (1990)	19
<i>Vendo Co. v. Lektro-Vend Corp.</i> , 433 U.S. 623 (1977)	13
<i>Virginia Bankshares, Inc. v. Sandberg</i> , 111 S. Ct. 2749 (1991)	18
<i>Walker Process Equipment, Inc. v. Food Machinery & Chem. Corp.</i> , 382 U.S. 172 (1965)	18
<i>Westmac, Inc. v. Smith</i> , 797 F.2d 313 (6th Cir. 1986), cert. denied, 479 U.S. 1035 (1987)	21, 22, 23
<i>Winterland Concessions Co. v. Trela</i> , 735 F.2d 257 (7th Cir. 1984)	23
<i>Wyatt v. Cole</i> , No. 91-126 (May 18, 1992)	14

Constitution, statutes and rules:

U.S. Const. Amend. I	6, 12, 13, 16, 18, 19
Anti-Injunction Act, 28 U.S.C. 2283	13
Clayton Act § 16, 15 U.S.C. 26	13
Sherman Act, 15 U.S.C. 1 <i>et seq.</i> :	
15 U.S.C. 1	2
15 U.S.C. 2	2
17 U.S.C. 106(4)	2
Fed. R. Civ. P.:	
Rule 11	17
Rule 56(f)	4, 27

Miscellaneous:

P. Areeda & H. Hovencamp, <i>Antitrust Law</i> (Supp. 1991)	18, 20
Hurwitz, <i>Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr</i> , 74 Geo. L.J. 65 (1985)	25
W. Keeton, <i>Prosser and Keeton on Torts</i> (5th ed. 1984)	14
3 Restatement of Torts (Second) (1977)	14

In the Supreme Court of the United States

OCTOBER TERM, 1991

No. 91-1043

PROFESSIONAL REAL ESTATE INVESTORS, INC., ET AL.,
PETITIONERS

v.

COLUMBIA PICTURES INDUSTRIES, INC., ET AL.

ON WRIT OF CERTIORARI
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BRIEF FOR THE UNITED STATES
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AS AMICI CURIAE SUPPORTING RESPONDENTS

INTEREST OF THE UNITED STATES
AND THE FEDERAL TRADE COMMISSION

The United States and the Federal Trade Commission enforce the federal antitrust laws. This case presents an issue concerning the scope of the sham exception to the *Noerr-Pennington* doctrine. Because conduct that comes within the *Noerr-Pennington* doctrine is not covered by the Sherman Act, the resolution of this issue directly affects the government's enforcement responsibilities. Moreover, the government has an interest in ensuring that rules under the antitrust laws are formulated to strike the proper balance between avoiding intrusions on protected and procompetitive activity and deterring and remedying anticompetitive conduct.

(1)

STATEMENT

1. Petitioners are the operators of a resort hotel in Palm Springs, California, called La Mancha Private Club and Villas. In 1981, La Mancha began renting movie videodiscs to guests, who could watch them on videodisc players and large-screen projection televisions provided in each room. In 1983, respondents, eight producers and distributors of theatrical motion pictures, brought a copyright infringement suit against petitioners alleging that La Mancha's rental of the videodiscs for viewing in the hotel rooms violated respondents' exclusive right "to perform the copyrighted work publicly." 17 U.S.C. 106(4). Pet. App. 4a-5a, 29a; J.A. 3-31, 218-219, 228-234, 239.

Petitioners denied liability under the copyright laws and filed a counterclaim alleging violations of Sections 1 and 2 of the Sherman Act, 15 U.S.C. 1 and 2, and of state law. J.A. 32-49. In each of the three antitrust counterclaims, one of the anticompetitive acts alleged against respondents was "the filing of this suit, which is a sham and false and known by [respondents] to be so." J.A. 38, 39, 40-41.

The parties filed cross-motions for summary judgment on the copyright claims and, at the court's request, postponed discovery on the antitrust counterclaims while those motions were pending. In January 1986, the district court granted summary judgment for petitioners on the copyright claims. It held that the rooms of La Mancha were not public, and that the rental of videodiscs was therefore not an unauthorized public performance that infringed respondents' copyrights. Pet. App. 5a, 29a-30a, 40a-49a. The court entered its decision as a separate judgment, and respondents appealed. Petitioners then moved to compel discovery on the antitrust

counterclaims. The district court denied that motion and stayed discovery pending the outcome of respondents' appeal. *Id.* at 5a; J.A. 489-490. In 1989, the court of appeals affirmed the district court's ruling that petitioners had not infringed respondents' copyrights. Pet. App. 26a-37a.

2. Having prevailed on the copyright issue, petitioners renewed their requests for discovery on the antitrust counterclaims. J.A. 505-522. As a result of a discovery conference, respondents produced some documents to petitioners. Soon thereafter, however, respondents moved for summary judgment, arguing that their conduct in bringing the infringement lawsuit was outside the scope of the antitrust laws under the *Noerr-Pennington* doctrine.¹ Pet. App. 6a, 23a.

The district court granted summary judgment in favor of respondents. It held that the filing and prosecution of the copyright infringement action was not a sham, and that respondents' conduct was therefore protected against antitrust liability by *Noerr*. Pet. App. 23a-25a. The court explained that "[i]t was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment." *Id.* at 24a. The court added that, although it had ruled against respondents, "the case was far from easy to resolve" and the court of appeals' opinion also suggested that the case was a difficult one. *Ibid.* The court therefore concluded that there was "probable cause for bringing the action." *Ibid.* In view of its holding that "the accused actions were adjudicated by the court and specifically determined not to have been a sham," the

¹ *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

court rejected petitioners' assertion, J.A. 558, that further discovery was required.² Pet. App. 25a.

3. The court of appeals affirmed. The court first agreed with petitioners that the district court had failed to address several of petitioners' allegations of anticompetitive conduct other than bringing the copyright action, but it held that none of those claims warranted reversal of summary judgment.³ Pet. App. 8a. The court then turned to the issue of whether the copyright suit could form the basis of an antitrust claim consistent with the *Noerr-Pennington* doctrine. The court stated that if respondents' prosecution of the copyright infringement action violated the antitrust laws, the costs of defense would amount to antitrust injury. *Id.* at 10a. The court concluded, however, that regardless of respondents' subjective intent in bringing the action, the copyright suit was protected by *Noerr* because it was not baseless. *Id.* at 15a.

The court explained that, under *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508,

² In a declaration submitted pursuant to Fed. R. Civ. P. 56(f), petitioners contended that discovery was needed as to "fact issues" bearing on respondents' intent, including "whether or not [respondents'] conduct is part of a pattern or practice of anticompetitive conduct and whether or not [respondents] knew those claims were baseless at the time they brought them." J.A. 570.

³ The court explained that one of the allegations—that respondents had engaged in a concerted refusal to deal—involved the rejection of petitioners' offer to settle the copyright case with a license. That claim, the court found, raised no issue separate from whether the maintenance of the copyright case could be challenged under the antitrust laws. Pet. App. 8a-9a. As to the remaining allegations, the court of appeals found that petitioners failed to demonstrate "that the alleged conduct caused antitrust injury." *Id.* at 9a.

510 (1972), a lawsuit is immune from Sherman Act liability by virtue of the *Noerr-Pennington* doctrine unless it is a sham. Pet. App. 11a. The court noted that *California Motor Transport* had identified, as sham activities, the use of "misrepresentations" in adjudications and the filing of a "pattern of baseless, repetitive claims." *Ibid.*, quoting 404 U.S. at 510. Here, the court observed, respondents' copyright action involved neither of those forms of sham activity. *Ibid.*

The court then rejected petitioners' argument that even though the copyright claim was not legally "baseless," it could still be attacked as a sham on the theory that respondents subjectively "did not honestly believe that the infringement claim was meritorious." Pet. App. 11a. The court concluded that its precedents required a showing that a lawsuit was baseless and had other anticompetitive features before it loses its *Noerr-Pennington* protection. *Id.* at 12a. The court stated that a broader application of the sham exception "may have a chilling effect on those who seek redress in the courts" through "a well-founded, but untested, legal theory," and that this would "erode the [F]irst [A]mendment right to petition that is the basis for the * * * doctrine." *Id.* at 14a-15a.

Applying that rule to the facts of this case, the court of appeals upheld summary judgment for respondents. The court noted that petitioners did not dispute the district court's conclusion that the copyright suit was not baseless, but was "brought with probable cause and presented issues that were difficult to resolve." Pet. App. 15a. The court therefore

held that the sham exception was inapplicable "as a matter of law." *Ibid.*⁴

SUMMARY OF ARGUMENT

A. The *Noerr-Pennington* doctrine immunizes from review under the antitrust laws activity undertaken in a genuine effort to obtain government action. But when the party that is ostensibly seeking government action is actually seeking to harm a competitor through invocation of the process itself, without regard to outcome, the activity may fall within the sham exception to the *Noerr-Pennington* doctrine.

The court of appeals held that a single unsuccessful lawsuit cannot be attacked as a sham if the suit was not baseless, regardless of other evidence indicating that the purpose of the lawsuit was to inflict harm solely through invoking the judicial process. That holding is incorrect. It conflicts with the focus in this Court's cases on the petitioning party's purpose to attain government action as the touchstone of the *Noerr* doctrine; it is unnecessary to avoid chilling protected First Amendment activity; and it would provide a formalistic loophole (albeit of limited dimension) in the protection afforded by the Sherman Act against anticompetitive conduct.

B. A properly focused application of the sham exception must balance the competing interests. While the court of appeals' requirement of baselessness is too narrow, a wholly subjective approach would deter the assertion of novel claims and would lead to

⁴ The court of appeals also held that the district court did not abuse its discretion in granting summary judgment without allowing further discovery, because the evidence sought, relating to respondents' subjective intent, "was relevant only if it was shown that the copyright infringement action was baseless." Pet. App. 18a.

protracted and burdensome antitrust litigation. Instead, the antitrust court should emphasize objective indicia of whether a lawsuit is a sham. When a lawsuit could not inflict competitive harm through the process alone, the sham claim should fail without more. Additionally, the existence of probable cause for suit constitutes strong evidence of a legitimate motive, and increases the burden on the plaintiff to show an improper purpose. Even if the lawsuit is partially motivated by such a purpose, the petitioning activity is still protected so long as the claimed desire to win is not pretextual. Finally, a showing of a sham lawsuit does not by itself establish an antitrust violation; if no antitrust claim is properly raised, the case can and should be dismissed on that basis.

C. The judgment in this case should be affirmed. Petitioners failed to make a showing that the copyright action was instituted to inflict harm from the judicial process alone, apart from its outcome. Moreover, petitioners' principal theory—that the suit was a sham because respondents knew it to be baseless—is untenable in light of the unchallenged finding below that the copyright suit was not baseless. Accordingly, although the court of appeals' analysis was in error, its affirmance of summary judgment was correct.

ARGUMENT

A. The Sham Exception To The *Noerr-Pennington* Doctrine Can Apply To A Single Unsuccessful Lawsuit Even When The Suit Is Not Baseless

1. In *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), this Court rejected a claim by trucking companies that a publicity campaign orchestrated by railroads, intended to inflict competitive injury on the trucking industry by securing legislation, violated the Sherman Act. The Court held that no antitrust claim could be based on that conduct because the Sherman Act does not apply to "mere attempts to influence the passage or enforcement of laws." *Id.* at 135. The Court explained that the antitrust laws are not intended to regulate the political process by which citizens inform the government of their views, and that the Sherman Act should be construed to avoid impinging on constitutionally protected conduct. *Id.* at 137-138. The Court stated that the "right of petition is one of the freedoms protected by the Bill of Rights, and we cannot, of course, lightly impute to Congress an intent to invade these freedoms." *Id.* at 138.

The principle of *Noerr* applies even though the intent of the petitioning party may be to inflict injury on a competitor through government action, and even though the petitioning party knows, and even hopes, that the political and publicity process itself will incidentally inflict harm on a competitor. 365 U.S. at 143. Nevertheless, the Court recognized in *Noerr* that petitioning activity could be abused for anticompetitive purposes. The Court stated that "[t]here may be situations in which [the challenged conduct], ostensibly directed toward influencing government action, is a mere sham to cover what is ac-

tually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified." *Id.* at 144.

In *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), the Court applied the sham exception to find that certain petitioning activity fell outside of the *Noerr-Pennington* immunity. In that case, the plaintiffs alleged that the antitrust defendants had restrained trade by bringing state and federal proceedings to oppose the plaintiffs' applications to acquire, transfer, or register trucking operating rights. *Id.* at 509. The complaint charged that the antitrust defendants had "instituted the proceedings and actions . . . with or without probable cause, and regardless of the merits of the cases," with the purpose not of prevailing on the merits, but of depriving their competitors of access to the adjudicatory forum. *Id.* at 512. The Court held that the *Noerr* doctrine extends to the use of courts and administrative agencies, *id.* at 510-511,⁵ but that the allegations of the complaint were sufficient to come within the sham exception. *Id.* at 512-516.

The sham exception identified in *California Motor Transport* depends on the purpose of the party who invokes judicial or administrative machinery. As Justice Stewart explained in his separate concurrence in the judgment, the allegations before the Court in *California Motor Transport* justified further proceedings because if "the real intent of the conspirators was not to invoke the processes of the administrative agencies and courts, but to discourage and ultimately

⁵ "Certainly the right to petition extends to all departments of the Government. The right of access to the courts is indeed but one aspect of the right of petition." 404 U.S. at 510.

to prevent the respondents from invoking those processes," it would constitute the direct interference with a competitor's business dealings that may implicate the antitrust laws. 404 U.S. at 518 (emphasis in original). The majority agreed, stating that "a purpose or intent [to deprive competitors of meaningful access to the agencies and courts], if shown, would * * * fall within the exception to *Noerr*." *Id.* at 512.

This Court's most recent discussion of the sham exception to the *Noerr-Pennington* doctrine reaffirms the centrality of purpose to the concept of a sham. In *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S. Ct. 1344 (1991), the Court confirmed that the test for determining whether otherwise-protected activity falls within the sham exception is whether the challenged activity is designed to injure competition through the process itself, rather than to procure government action:

The "sham" exception to *Noerr* encompasses situations in which persons use the governmental process—as opposed to the outcome of that process—as an anticompetitive weapon. * * * A "sham" situation involves a defendant whose activities are "not genuinely aimed at procuring favorable government action" at all.

City of Columbia, 111 S. Ct. at 1354, quoting *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 n.4 (1988).

2. The court of appeals held that absent misrepresentations in the adjudicative forum, if a lawsuit is not baseless, it cannot be a sham.⁶ In the court's

⁶ The court of appeals interpreted *California Motor Transport* as permitting the finding of a sham only where misrepresentations occurred in the process of adjudication, or where the antitrust defendant pursues a "pattern of baseless, repeti-

view, when the lawsuit passes that objective test, no amount of evidence that the litigation was instituted solely to achieve anticompetitive harm through the process, rather than the ultimate result, could deprive the lawsuit of *Noerr-Pennington* protection. The court of appeals erred in introducing a threshold requirement of baselessness for invoking the sham exception.

This Court's decisions do not prescribe the rule espoused by the court of appeals, but have instead focused on the purpose and nature of the petitioning conduct. In *California Motor Transport*, the Court emphasized that if the "purpose or intent" of the party invoking the judicial process is to thwart a competitor's access to the courts, "the exception to *Noerr*" would apply. 404 U.S. at 512. While the examples given by the Court included "[m]isrepresentations" or "a pattern of baseless, repetitive claims," *id.* at 513, the Court's opinion did not limit the sham exception to those situations.⁷ In later cases, the Court explained that the sham exception applies to the use of the "governmental process" rather than the "outcome" of that process as a means of inflicting anti-

tive claims." Pet. App. 11a, quoting 404 U.S. at 513. In fact, the court of appeals truncated, and thereby distorted, the description of a sham suit used by this Court in *California Motor Transport*. See note 7, *infra*, and accompanying text.

⁷ The complaint sustained in *California Motor Transport* alleged that the proceedings were instituted "with or without probable cause, and regardless of the merits of the cases," 404 U.S. at 512. That suggests that the key in sham analysis is not baselessness, but indifference to outcome. In fact, the district court had found that 21 of the 40 proceedings brought by the antitrust defendants had produced action favorable to them. *Trucking Unlimited v. California Motor Transport Co.*, 1967 Trade Cas. (CCH) ¶ 72,298, at 84,744 (N.D. Cal. 1967).

competitive harm. *City of Columbia*, 111 S. Ct. at 1354; *Allied Tube & Conduit Corp.*, 486 U.S. at 500 n.4; *New Motor Vehicle Bd. v. Orrin W. Fox Co.*, 439 U.S. 96, 110 & n.15 (1978). The inquiry into whether an attempt to use governmental processes is "genuine," *City of Columbia*, 111 S. Ct. at 1355, suggests that more is required, in the context of an unsuccessful lawsuit, than a mere finding that litigation, viewed abstractly, was not baseless.

Bill Johnson's Restaurants, Inc. v. NLRB, 461 U.S. 731 (1983), is not to the contrary. That case considered whether the National Labor Relations Board could enjoin, as an unfair labor practice, the prosecution of a state-court lawsuit. The Court held that the Board could not do so unless the suit was brought with both a "[r]etaliatory motive and lack of reasonable basis." *Id.* at 748. In reaching that conclusion, the Court relied on "[c]onsiderations analogous" to those informing the sham exception to the *Noerr-Pennington* doctrine, *id.* at 744, including First Amendment values, *id.* at 741. The Court also stressed, however, that if the Board were given a broader power to enjoin such suits it would intrude on the "States' compelling interest in the maintenance of domestic peace" with respect to state claims that federal labor law does not preempt. *Ibid.*; see *Sure-Tan, Inc. v. NLRB*, 467 U.S. 883, 897-898 (1984). *Bill Johnson's Restaurants* does not purport to delineate the boundaries of the antitrust sham exception,⁸ and the concern in that case to avoid friction between the Board and state courts through a litigation-freezing injunction is not present when a liti-

⁸ The Court described the approach it adopted in *Bill Johnson's Restaurants* as "similar," not identical, to the antitrust sham exception. 461 U.S. at 744.

gant's conduct is reviewed after-the-fact by the anti-trust court.⁹

Nor do the First Amendment concerns that underpin the *Noerr-Pennington* doctrine require blanket immunity for non-baseless lawsuits. There is no constitutional protection for an unsuccessful lawsuit motivated by an impermissible purpose. See *Bill Johnson's Restaurants*, 461 U.S. at 749 (nonmeritorious suit brought with a retaliatory motive constitutes an unfair labor practice);¹⁰ *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 471 (7th Cir. 1982) ("If all nonmalicious litigation were immunized from government regulation by the First Amendment, the tort of abuse of process would be unconstitutional—something that, so far as we know, no one believes."), cert. denied, 461 U.S. 958 (1983).¹¹

⁹ The injunction setting of *Bill Johnson's Restaurants* sharply differentiates that case from the antitrust damages setting, which ordinarily poses no threat to ongoing proceedings. Cf. *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623 (1977) (plurality opinion) (Anti-Injunction Act, 28 U.S.C. 2283, prohibits reliance on Section 16 of the Clayton Act, 15 U.S.C. 26, to enjoin state-court litigation on the theory that it is a sham). First Amendment concerns are at their height when government action imposes a prior restraint, as through an injunction. See, e.g., *New York Times Co. v. United States*, 403 U.S. 713, 714 (1971).

¹⁰ While the Board may not issue a cease-and-desist order "unless the suit lacks a reasonable basis," the Court stated that "it is an unfair labor practice to prosecute an unmeritorious lawsuit for a retaliatory purpose" and the Board can address that practice at the conclusion of the state case. *Bill Johnson's Restaurants*, 461 U.S. at 749.

¹¹ The common law tort of abuse of process applied to litigation instituted "for an end other than that which it was designed to accomplish" and turned on "[t]he purpose for which the process is used," not on whether the litigation was "begun

Litigation that does not genuinely aim at redress from the courts, but is designed only to cause harm from maintenance of the suit, should not be immunized from Sherman Act scrutiny for its own sake; it should be protected only if that were necessary to avoiding chilling legitimate lawsuits.

While it is important to avoid undue deterrence of the assertion of novel and uncertain claims, drawing the line at baselessness would open the door to anti-competitive abuse.¹² If the court of appeals' rule were adopted, it would provide a clear loophole in the Sherman Act's scheme of protection. Litigation can be a powerful weapon with which to inflict injury on business rivals, quite apart from success on the merits. Severe consequences may flow from the mere pendency

without probable cause." W. Keeton, *Prosser and Keeton on Torts* § 121, at 897 (5th ed. 1984); 3 *Restatement of Torts (Second)* § 682, at 474 (1977) (tort of abuse of process consists of "misuse of process * * * for any purpose other than that which it was designed to accomplish"; "it is immaterial that * * * proceedings * * * were brought with probable cause"). In *Wyatt v. Cole*, No. 91-126 (May 18, 1992), some Members of this Court expressed the view that the common law torts of abuse of process and malicious prosecution required a showing of both an unlawful purpose and an absence of probable cause. See slip op. 4 (Kennedy, J., concurring); slip op. 3 (Rehnquist, C.J., dissenting). That suggestion does not universally reflect the common law, however.

¹² This case does not present the issue of whether a single, successful lawsuit can be labeled as a sham. In theory, such a suit could be brought to inflict harm on a competitor through the process alone, regardless of outcome. It is likely, however, that a successful plaintiff would be motivated, at least in part, to prevail. However the balance should be struck when the antitrust defendant prevails in the alleged sham suit, the relevant considerations do not dictate immunity for all unsuccessful, albeit non-baseless, lawsuits.

of court action, and the ability of the judicial process itself to hamstring competitors may spur the filing of a lawsuit without regard to the likelihood of winning. Such abuses can be a source of antitrust concern, even when the litigation rests (however tenuously) on probable cause.

For example, in *United States v. Otter Tail Power Co.*, 331 F. Supp. 54, 62 (D. Minn. 1971), vacated in relevant part, 410 U.S. 366 (1973), a monopolist in the provision of electric power had begun or supported lawsuits that effectively frustrated the sale of revenue bonds that would have financed competing municipal power systems. As the district court noted, a "no-litigation certificate" was "essential" to market the bonds, such that the "pendency of litigation" alone prevented the construction of competing power stations. 331 F. Supp. at 62; see 410 U.S. at 372.¹³ If the court of appeals' rule were adopted, firms that wished to interfere with a competitor's financing efforts could file a strategically timed lawsuit with no interest in prevailing, secure in the knowledge that if the lawsuit were not entirely baseless, it would be immune from all antitrust review. The result would

¹³ The district court explained that "although all of [the litigation] was unsuccessful on the merits, the institution and maintenance of it had the effect of halting, or appreciably slowing, efforts for municipal ownership." 331 F. Supp. at 62 (footnote omitted). This Court stated that the record supported that finding, but it vacated the judgment on that point for further consideration in light of *California Motor Transport*, which applied the *Noerr-Pennington* doctrine to judicial proceedings. *Otter Tail Power Co. v. United States*, 410 U.S. 366, 372, 379-380 (1973). On remand, the district court found that the litigation was a sham—without making any finding of baselessness—and this Court summarily affirmed. 360 F. Supp. 451 (E.D. Minn. 1973), aff'd, 417 U.S. 901 (1974).

be a safe harbor for parties who could devise a plausible legal and factual foundation for a suit, even though the litigation was intended solely to inflict injury by its mere institution.¹⁴

That is not to deny that, even when a claim ultimately fails on the merits, the First Amendment right to petition deserves substantial protection against the burden of a possible antitrust counterattack. Nor is it to question that lack of baselessness can be powerful evidence that the judicial action is not a sham. Nevertheless, the court of appeals' test goes materially beyond what is necessary or appropriate to protect the values underlying the right to petition, and it does so at the expense of the fundamental policy of competition reflected in the antitrust laws.

B. A Proper Formulation Of The Sham Exception Emphasizes Objective As Well As Subjective Factors That Bear On The Purpose Of The Lawsuit

The ultimate inquiry in a sham case is whether the litigation was brought to inflict harm through the process alone, without regard to the outcome. In our view, the appropriate sham analysis should consider both objective and subjective factors, in order to protect the First Amendment interest in ensuring free-

¹⁴ The Fifth Circuit has rejected that approach precisely because it refused to "endorse a rule that would require a court to blindly extend protection in the face of evidence that the party was in fact not exercising the protected right to petition." *In re Burlington Northern, Inc.*, 822 F.2d 518, 529 n.8 (1987), cert. denied, 484 U.S. 1007 (1988). In that case, a pipeline company alleged that a group of railroads was not interested in judicial relief because the railroads' "goal of defeating the pipeline depended primarily on delaying the project to the point it became so expensive to be infeasible as a competitive enterprise." 822 F.2d at 528.

dom for litigants to seek redress from the courts while furthering the purpose of the Sherman Act to preserve competition. Such an inquiry, appropriately managed, can minimize difficulties and burdensomeness in examining the antitrust defendant's intent.

1. An unguided inquiry into subjective intent under the sham exception can give rise to several practical concerns. To begin with, genuine efforts to obtain favorable legal rulings may well be deterred by the fear that the assertion of a novel claim may be branded, in retrospect, as a device designed to exploit the burdens of the litigation process. The potential for chilling protected conduct is magnified by the prospect of antitrust treble damages. Moreover, even a successful defense against antitrust claims based on a theory of sham litigation can be costly, burdensome, and intrusive. Discovery into subjective intent is often time-consuming and may touch on areas protected by the attorney-client privilege and the work-product doctrine.

The court of appeals' rule responds to those concerns, but its bright-line test is neither required nor appropriate to meet them.¹⁵ As in other contexts in

¹⁵ It is also questionable how "bright" a line the court drew. The court of appeals did not explain whether it equated a "baseless" action for sham purposes to one that would merit sanctions under Fed. R. Civ. P. 11, or, if not, whether it had a different analogy in mind. Regardless of the standard chosen, the inquiry into baselessness is malleable enough to reflect a judge's perception of whether a particular litigant was "really" engaged in a sham—an inquiry that boils down to subjective intent. For example, in this case the district court inferred from "the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment." Pet. App. 24a. If the courts are to consider what a party was truly "seeking," however, it is better to

which subjective intent is at issue in a business setting, the courts can rely largely on documentary evidence of a party's reasons. Cf. *Virginia Bankshares, Inc. v. Sandberg*, 111 S. Ct. 2749, 2758 (1991). "The difficulty of determining the true purpose [of a lawsuit] is great but no more so than in many other areas of antitrust law." *Grip-Pak, Inc.*, 694 F.2d at 472.¹⁶ And, as we discuss below, reliance on objective factors in making the sham determination will minimize the risk of an erroneous decision, thereby reducing the concern for chilling protected conduct.¹⁷

Nor do the pressures and burdens of discovery into intent present insuperable problems in this context, although discovery must be carefully managed by district courts. Discovery can be of especial concern

acknowledge the relevance of the inquiry into intent, and to permit reasonable presentation of evidence on it.

¹⁶ But see P. Areeda & H. Hovencamp, *Antitrust Law* ¶ 203.1c, at 24 (Supp. 1991) ("the inquiry into subjective intent is hazardous and of doubtful utility in most cases"; subjective intent "is often a jumble of mixed impulses, even if we succeed in identifying the particular human being(s) whose intention is relevant").

¹⁷ It is a familiar principle that rules that operate on the boundaries of First Amendment activity must be framed to avoid "chilling" protected expression. *Hustler Magazine, Inc. v. Falwell*, 485 U.S. 46, 52 (1988). The concern of chill carries less force, however, as applied to the typical commercial lawsuit that is likely to form the basis of a sham charge under the antitrust laws. Cf. *Allied Tube & Conduit Corp.*, 486 U.S. at 505-507 (finding *Noerr* inapplicable to attempts to influence an industry standard-setting body because of the commercial context). Even where claims to protect intellectual property are concerned, the Court has not foreclosed all inquiry into a party's intent in order to avoid a chilling effect. *Walker Process Equipment, Inc. v. Food Machinery & Chem. Corp.*, 382 U.S. 172, 177 (1965).

in areas touching on First Amendment activity. There is no reason, however, to impose an absolute ban on discovery in this setting, where the policies of the antitrust laws would be compromised if litigants had carte blanche to commence non-baseless lawsuits for the purpose of producing injury through the process alone. Cf. *University of Pennsylvania v. EEOC*, 493 U.S. 182 (1990) (no First Amendment privilege against inquiry into faculty peer review materials relevant to a discrimination claim).

Discovery can be expensive, time-consuming, and distracting. And, especially where, as here, sensitive First Amendment rights are also implicated, district courts should "exercise appropriate control over the discovery process" to block excessive or burdensome discovery into subjective intent and to "prevent abuse." *Herbert v. Lando*, 441 U.S. 153, 177 (1979).

[T]he discovery provisions, like all of the Federal Rules of Civil Procedure, are subject to the injunction of Rule 1 that they "be construed to secure the just, *speedy*, and *inexpensive* determination of every action." (Emphasis added.) To this end, the requirement of Rule 26(b)(1) that the material sought in discovery be "relevant" should be firmly applied, and the district courts should not neglect their power to restrict discovery where "justice requires [protection for] a party or person from annoyance, embarrassment, oppression, or undue burden or expense" Rule 26(c).

Ibid. Similarly, in antitrust cases alleging the sham exception, "judges should not hesitate to exercise appropriate control over the discovery process." *Ibid.*; see *Société Nationale Industrielle Aérospatiale v. United States District Court*, 482 U.S. 522, 546 (1987) ("Judicial supervision of discovery should

always seek to minimize its costs and inconvenience and to prevent improper uses of discovery requests.”); P. Areeda & H. Hovenkamp, *supra*, ¶ 203.4d, at 57 (noting that summary judgment in a sham-exception case may appropriately be granted without discovery if the “necessary facts” bearing on a dispositive issue “are readily available to the plaintiff”). In particular, a sham claim, more than most antitrust cases, may lead plaintiffs to seek discovery of confidential or privileged communications involving attorneys. The mere claim of a sham, however, does not overcome those protections. *Burlington Northern*, 822 F.2d at 533-534. Courts are well versed in procedures to simplify the resolution of contested claims of privilege. See *United States v. Zolin*, 491 U.S. 554 (1989) (describing use of in camera procedures, when a proper threshold showing is made, to resolve crime-fraud claims).

2. While inquiry into purpose is appropriate, courts should put particular weight on objective evidence in determining whether the plaintiff has met his burden to establish the sham exception, for many sham claims can be resolved without extended direct inquiry into a party’s subjective intent. First, the sham exception, at a minimum, cannot apply when the plaintiff is unable to plead (and properly support at the summary judgment stage) a reasonable theory of how the institution of the lawsuit, apart from its outcome, could harm competition. If litigation cannot suppress competition from the defendant unless it is successful, the sham exception has no application. Seeking government action, even to achieve anticompetitive results from that action, is precisely what the *Noerr-Pennington* doctrine protects. *United Mine Workers v. Pennington*, 381 U.S. 657, 669-670 (1965). The claim that a lawsuit is a sham can often be dis-

posed of simply by considering that issue.¹⁸ Cf. *Eastman Kodak Co. v. Image Technical Services, Inc.*, No. 90-1029 (June 8, 1992), slip op. 15 (“If the plaintiff’s theory is economically senseless, no reasonable jury could find in its favor, and summary judgment should be granted.”). When that is the case, discovery into intent would be unnecessary and inappropriate.

Second, when a losing suit is not baseless, but reasonably grounded in law and fact, that is significant evidence that it was brought for the ordinary reason suits are brought—to secure a favorable judgment—rather than to inflict the legal process on an opponent. Accordingly, “when a lawsuit raises a legal issue of genuine substance, it raises a rebuttable presumption that it is a serious attempt to obtain a judgment on the merits instead of a mere sham or harassment.” *Westmac, Inc. v. Smith*, 797 F.2d 313, 318 (6th Cir. 1986), cert. denied, 479 U.S. 1035 (1987). As the suit rises above the level of probable cause, the burden on the antitrust plaintiff to demonstrate applicability of the sham exception is heightened. The stronger the showing of objective plausibility of the suit, the more reason there is to doubt that it was

¹⁸ See *Franchise Realty Interstate Corp. v. San Francisco Local Joint Exec. Bd.*, 542 F.2d 1076, 1084 (9th Cir. 1976) (“Mere opposition [by the antitrust defendants] would not defeat [the antitrust plaintiff’s] purpose; to do that, defendants had to persuade the Board to rule in their favor.”); *Boulware v. Nevada*, 1992-1 Trade Cas. (CCH) ¶ 69,771, at 67,540 (9th Cir. 1992) (“On the facts of this case, [the antitrust defendant] had little or nothing to gain from losing. Few benefits could have been derived from an unsuccessful suit, and there is no reason to believe that NCSC participated in the case regardless of the outcome or without a legitimate expectation of success on the merits.”).

brought with an improper purpose, and the corresponding greater showing of a prohibited purpose through other evidence is required.¹⁹

It is also appropriate to test the plaintiff's evidence of subjective intent stringently. Ordinarily, some objective circumstantial evidence would be necessary to establish an intent to inflict process-related harm, for there will rarely be an explicit admission that a lawsuit was brought without regard to the merits.²⁰ For example, Judge Posner has suggested that it is evidence of a sham if "the stakes, discounted by the probability of winning, would be too low to repay the investment in litigation" but for some process-related benefit. *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d at 472. While the "stakes" in litigation may not always be clear—particularly when a judgment may be sought for its precedential value—the expected net benefits from a suit can be an important indication of its purpose. See *Westmac, Inc. v. Smith*, 797 F.2d at 318-319 (granting summary judgment when the suit had probable cause, the evidence indicated substantial benefits to be derived from success, and there was no substantial evidence to support a contrary inference).

¹⁹ Under such a sliding scale, it may well be that a prevailing litigant in a single lawsuit should never be exposed to antitrust liability under the sham exception. See note 12, *supra*. Conversely, "a complete lack of reasonableness necessarily must deprive a person of protection." *Burlington Northern*, 822 F.2d at 529.

²⁰ In other types of sham-exception suits, misrepresentations in litigation or a pattern of losing suits may provide evidentiary support for the inference that the process is being invoked without a legitimate desire to win. In the absence of those factors, proving improper purpose is more difficult, but not impossible.

Even if a plaintiff shows some element of improper motive, however, that is not sufficient to establish that a suit is a sham. *Noerr*, 365 U.S. at 142-144. It is to be expected that firms seeking a judgment against their rivals "would be aware of, and possibly even pleased by, the prospect of such injury" that incidentally flows from the process of litigation. *Id.* at 143. "To hold that the knowing infliction of such injury renders the [lawsuit] itself illegal would thus be tantamount to outlawing all such [litigation]." *Id.* at 143-144. Therefore, unless the plaintiff can establish that the jury could reasonably find that the putative sham suit lacked sufficient legitimate motive to be genuine, the claim of a sham should not go to a jury.²¹ It is not enough for a plaintiff simply to ask the jury to disbelieve the antitrust defendant's statement that its purpose was to prevail. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 256 (1986).

The approach we propose, of course, would not permit resolution of all sham claims on summary

²¹ Courts have used different formulations to express the burden on the plaintiff to establish improper motive. For example, in *Burlington Northern*, 822 F.2d at 528, the court of appeals said that the controlling issue is whether the challenged suit was "significantly motivated by a genuine desire for judicial relief." See *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358, 1372 (5th Cir. 1983). Other courts have indicated that sham litigation is "litigation filed by an individual solely to harass and not to win a favorable judgment." *Westmac, Inc. v. Smith*, 797 F.2d at 316, citing *Winterland Concessions Co. v. Trela*, 735 F.2d 257, 263 (7th Cir. 1984). This Court need not define in this case the precise degree to which the antitrust defendant must be motivated to win in order for its litigation activity to be immunized under the *Noerr-Pennington* doctrine; it is clear enough that only when the antitrust plaintiff shows a plainly pretextual use of the courts will the normal immunity be stripped away.

judgment. To that extent, it would result in more discovery and trials than would the court of appeals' standard. In our view, however, the availability of a properly qualified, but still meaningful level of antitrust scrutiny is required by the policies of the Sherman Act. Litigation guided by a properly focused sham inquiry will vindicate those policies of protecting competition, without either (1) generating excessive complications for resolving antitrust counterclaims, or (2) chilling the legitimate assertion of untested claims.²²

3. Finally, the costs of applying the sham exception to suits that are not baseless are substantially reduced by the normal antitrust screens. A sham suit does not necessarily violate the antitrust laws. The antitrust plaintiff must also meet the usual requirements to allege a violation of the Sherman Act, and those requirements will not often be satisfied in cases resting on a claim of a single sham suit. A sham suit may cause injury to a particular competitor, but that alone does not implicate the antitrust laws. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 488 (1977) (antitrust laws protect competition, not competitors). Courts should not hesitate to dispose of antitrust cases quickly when, even if a sham could be proved, the sham suit would raise no antitrust concerns. See *Razorback Ready*

²² Indeed, it would increase, not decrease, the amount of counterproductive litigation if plaintiffs were given free rein under the Sherman Act to institute non-baseless—but highly doubtful—cases for abusive purposes. Although the antitrust laws are not the sole or even the primary source of protection from such abuses, they can serve an important purpose in preventing and redressing the economic harm from suits brought to suppress competition through the process of litigation.

Mix Concrete Co. v. Weaver, 761 F.2d 484, 488 (8th Cir. 1985) (finding, in the alternative, that even if suit challenging a bond issue were a sham, the antitrust plaintiff failed to state a claim under the Sherman Act); Hurwitz, *Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr*, 74 Geo. L.J. 65, 122-123 (1985) (discussing use of antitrust screen to reduce the number of cases requiring adjudication of sham claim).

C. Summary Judgment Was Correctly Granted In This Case Because Petitioners Failed To Support A Theory Under Which The Sham Exception Would Be Applicable

In light of the approach we propose, the judgment should be affirmed. Although the rationale on which the courts below relied is incorrect, petitioners failed to present evidence from which a reasonable jury could have determined that respondents' suit was a sham. *Eastman Kodak Co.*, slip op. 15 & n.14; *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 595-598 (1986); *Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752, 768 (1984).

As an initial matter, petitioners failed to make a showing that respondents inflicted antitrust injury through the process, as opposed to the outcome, of the copyright litigation. The court of appeals noted that petitioners "neither pleaded nor presented evidence" that the videodisc rental service had been interrupted; that the hotel lost guests; or that they were prevented from marketing the video viewing system to others. Pet. App. 9a. The only "antitrust injury" for which the court saw any basis was the cost of defending the copyright suit. *Id.* at 10a. Yet there was no showing that the costs of defense were so substantial that they impeded competition by

petitioners. Thus, on the evidence petitioners adduced, "the mere filing of a lawsuit was insufficient to achieve" respondents' alleged anticompetitive goal; rather, "[i]n order to succeed, [respondents] needed the actual relief [they were] requesting from the courts." *Oregon Natural Resources Council v. Mohla*, 944 F.2d 531, 535 (9th Cir. 1991).

Moreover, petitioners' theory that the unsuccessful copyright suit was a sham rested entirely on the claim that respondents knowingly filed a baseless lawsuit. See J.A. 38, 39, 40-41, 555, 574. But respondents could not have *known* the copyright action was baseless. The district court found the case "far from easy to resolve" and concluded that "there was probable cause for bringing the action." Pet. App. 24a. Petitioners did not challenge that determination on appeal, *id.* at 11a; and do not challenge it in this Court. Since respondents' suit was not baseless in law or fact, respondents could not have "known" it to be baseless.²³

Nor would the allegedly broader pattern of anti-competitive conduct on respondents' part establish that the copyright suit was a sham. Pet. App. 7a-8a; Pet. Br. 29-30. If respondents engaged in other anti-competitive activity, it would indicate that they hoped to suppress competition from petitioners, but it would not suggest that they instituted the copyright case without desiring relief. At best, the evidence would

²³ Petitioners' opposition to summary judgment also suggested that the copyright action was a sham because respondents believed it to be without merit, even if it was not actually baseless. J.A. 554. But the evidence on that point was the same as the evidence presented to show actual baselessness. If that evidence does not show actual baselessness, it cannot support the inference that respondents believed that the suit was baseless.

tend to suggest a mixed motive for the lawsuit, but such a mixture is not sufficient to deny *Noerr-Pennington* protection.²⁴

Although petitioners did not obtain the discovery they requested in this case, see Pet. Br. 30, further discovery and a postponement of summary judgment is not warranted in light of the showing made by petitioners. Faced with respondents' motion, petitioners cited Fed. R. Civ. P. 56(f) in contending that before the court ruled, discovery should be allowed into "fact issues" bearing on respondents' intent, "includ[ing] whether or not [respondents'] conduct is part of a pattern or practice of anticompetitive conduct and whether or not [respondents] knew those claims were baseless at the time they brought them." J.A. 570. That explanation, however, fails to meet the requirements ordinarily applied to Rule 56(f) affidavits. It neither "articulate[s] some plausible basis for the party's belief that specified 'discoverable' material facts likely exist which have not yet come in from the cold," nor shows "some realistic prospect that the facts * * * will, if obtained, suffice to engender an issue both genuine and material." *Paterson-Leitch Co. v. Massachusetts Mun. Wholesale*

²⁴ Petitioners now suggest that respondents' refusal to settle the copyright litigation by granting a license, and their insistence "upon litigating their copyright claim to the bitter end," Pet. Br. 8, 30, supports an inference of a sham. Petitioners, however, did not argue to the district court or the court of appeals that the failure to settle was a reason to conclude that the copyright action was a sham. J.A. 553-562; Pet. C.A. Br. 22. In any event, a copyright holder's refusal to grant a license suggests that judicial relief—and a legal precedent—was genuinely desired, not that the case was a sham.

Elec. Co., 840 F.2d 985, 988 (1st Cir. 1988).²⁵ As we have explained, petitioners' generalized claims that the suit was known to be baseless and was embedded in a matrix of anticompetitive conduct are insufficient. In light of petitioners' failure to make a more particularized showing of what else they hoped to discover, the granting of summary judgment was proper and there is no warrant for remanding this case for further proceedings.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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²⁵ See also *Hudson River Sloop Clearwater, Inc. v. Department of the Navy*, 891 F.2d 414, 422 (2d Cir. 1989) (affidavit must explain what facts are sought and how they are reasonably expected to create a genuine issue of material fact).

(6)

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OFFICE OF THE CLERK

In the Supreme Court of the United States

OCTOBER TERM, 1991

**PROFESSIONAL REAL ESTATE INVESTORS, INC., ET AL.,
PETITIONERS**

v.

**COLUMBIA PICTURES INDUSTRIES, INC., ET AL.,
RESPONDENTS**

**On Writ of Certiorari to the
United States Court of Appeals
for the Ninth Circuit**

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54

QUESTION PRESENTED

Whether the prosecution of a lawsuit involving a pure question of law that was "brought with probable cause and presented issues that were difficult to resolve" (Pet. App. 15a) may subject a party to potential antitrust liability solely on the theory that the suit was not motivated by a desire to achieve a favorable judicial result and, therefore, constituted a "mere sham."

**PARTIES TO THE PROCEEDING AND
RULE 29.1 STATEMENT**

In addition to the parties listed in the caption, Kenneth F. Irwin is a petitioner in this Court and Embassy Pictures; Paramount Pictures Corporation; Twentieth Century Fox Film Corporation; Universal City Studios, Inc.; Walt Disney Productions; Warner Bros. Inc.; and CBS Inc. are respondents in this Court. Respondents' parent corporations and non-wholly-owned subsidiaries are listed at pages ii to v of respondents' brief in opposition.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	i
PARTIES TO THE PROCEEDING AND RULE 29.1 STATEMENT	ii
TABLE OF AUTHORITIES	v
OPINIONS BELOW	1
JURISDICTION	1
STATEMENT	2
A. The Copyright Infringement Action	3
B. The Antitrust Counterclaims	6
SUMMARY OF ARGUMENT	11
ARGUMENT	14
RESPONDENTS' COPYRIGHT INFRINGE- MENT ACTION WAS NOT A "MERE SHAM"	14
A. The Sherman Act Does Not Reach Requests For Government Action Except In The Narrow Category Of "Mere Sham[s]"	17
B. The Standard For Determining Whether A Law- suit Is A Sham Has Both Objective And Sub- jective Components	20
1. This Court's Opinions Addressing The "Mere Sham" Exception Establish That Only Objectively Unreasonable Litigation May Be Subjected To Antitrust Scrutiny	20
2. The Considerations Underlying <i>Noerr</i> Re- quire An Objective Component As The Threshold Element Of The Sham Inquiry	23
a. Constitutional considerations	25

TABLE OF CONTENTS—Continued

	Page
b. The difficulty of assessing intent	29
c. Discovery abuses	33
d. Common law analogies	36
e. The inadequacy of petitioners' justifications	38
C. Respondents' Copyright Suit Was Not A "Mere Sham" Because The Claim Was Not Baseless....	41
CONCLUSION	45

TABLE OF AUTHORITIES

Cases:	Page
<i>A.A. Poultry Farms, Inc. v. Rose Acre Farms, Inc.</i> , 881 F.2d 1396 (7th Cir. 1989), cert. denied, 494 U.S. 1019 (1990)	30, 33
<i>Allied Tube & Conduit Corp. v. Indian Head, Inc.</i> , 486 U.S. 492 (1988)	22, 26, 33
<i>Barry Wright Corp. v. ITT Grinnell Corp.</i> , 724 F.2d 227 (1st Cir. 1983)	30, 31
<i>Bill Johnson's Restaurants, Inc. v. NLRB</i> , 461 U.S. 731 (1983)	12, 13, 23, 27
<i>Blue Chip Stamps v. Manor Drug Stores</i> , 421 U.S. 723 (1975)	13, 33, 35
<i>Bose Corp. v. Consumers Union of United States, Inc.</i> , 466 U.S. 485 (1984)	29
<i>Business Electronics Corp. v. Sharp Electronics Corp.</i> , 485 U.S. 717 (1988)	19
<i>California v. Hodari D.</i> , 111 S. Ct. 1547 (1991)	22
<i>California Motor Transport Co. v. Trucking Un- limited</i> , 404 U.S. 508 (1972)	2, 18, 21
<i>City of Columbia v. Omni Outdoor Advertising, Inc.</i> , 111 S. Ct. 1344 (1991)	passim
<i>Columbia Pictures Industries, Inc. v. Aveco, Inc.</i> , 800 F.2d 59 (3d Cir. 1986)	3, 4
<i>Columbia Pictures Industries, Inc. v. Redd Horne, Inc.</i> , 749 F.2d 154 (3d Cir. 1984)	3, 4
<i>Cox Broadcasting Corp. v. Cohn</i> , 420 U.S. 469 (1975)	26
<i>DeShaney v. Winnebago County Department of Social Services</i> , 489 U.S. 189 (1989)	3
<i>Dinsman v. Wilkes</i> , 53 U.S. (12 How.) 389 (1851)	36
<i>Director General v. Kastenbaum</i> , 263 U.S. 25 (1923)	37
<i>Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.</i> , 365 U.S. 127 (1961)	passim
<i>Garrison v. Louisiana</i> , 379 U.S. 64 (1964)	26
<i>Gertz v. Robert Welch, Inc.</i> , 418 U.S. 323 (1974) ..	26, 27
<i>Grip-Pak, Inc. v. Illinois Tool Works, Inc.</i> , 694 F.2d 466 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983)	38, 39, 43

TABLE OF AUTHORITIES—Continued

	Page
<i>Harlow v. Fitzgerald</i> , 457 U.S. 800 (1982)	13, 33, 44
<i>Holiday Magic, Inc. v. Scott</i> , 282 N.E.2d 452 (Ill. App. Ct. 1972)	38
<i>Hunt v. Crumboch</i> , 325 U.S. 821 (1945)	37
<i>Hustler Magazine, Inc. v. Falwell</i> , 485 U.S. 46 (1988)	26
<i>In re Burlington Northern, Inc.</i> , 822 F.2d 518 (5th Cir. 1987), cert. denied, 484 U.S. 1007 (1988)	34, 39
<i>Lupia v. Stella D'Oro Biscuit Co.</i> , 586 F.2d 1163 (7th Cir. 1978)	34
<i>Matsushita Electric Industrial Co. v. Zenith Radio Corp.</i> , 475 U.S. 574 (1986)	31, 34
<i>Monsanto Co. v. Spray-Rite Service Corp.</i> , 465 U.S. 752 (1984)	32
<i>NAACP v. Button</i> , 371 U.S. 415 (1963)	26
<i>New York Times Co. v. Sullivan</i> , 376 U.S. 254 (1964)	26, 29
<i>Ocean State Physicians Health Plan v. Blue Cross & Blue Shield</i> , 883 F.2d 1101 (1st Cir. 1989), cert. denied, 494 U.S. 1027 (1990)	30
<i>Olympia Equipment Leasing Co. v. Western Union Telegraph</i> , 797 F.2d 370 (7th Cir. 1986), cert. denied, 480 U.S. 934 (1987)	30
<i>Omni Resource Development Corp. v. Conoco, Inc.</i> , 739 F.2d 1412 (9th Cir. 1984)	15, 25
<i>On Command Video Corp. v. Columbia Pictures Industries</i> , 777 F. Supp. 787 (N.D. Cal. 1991)	3
<i>Otter Tail Power Co. v. United States</i> , 410 U.S. 366 (1973)	12, 21, 22
<i>Rural Telephone Service Co. v. Feist Publications, Inc.</i> , 957 F.2d 765 (10th Cir. 1992), petition for cert. filed, No. 91-1872 (May 18, 1992)	30
<i>Scott v. United States</i> , 436 U.S. 128 (1978)	26
<i>Sheldon Appel Co. v. Albert & Oliker</i> , 765 P.2d 498 (Cal. 1989)	37
<i>Sony Corp. of America v. Universal City Studios, Inc.</i> , 464 U.S. 417 (1984)	3
<i>Speiser v. Randall</i> , 357 U.S. 513 (1958)	26
<i>Stewart v. Sonneborn</i> , 98 U.S. 187 (1879)	41

TABLE OF AUTHORITIES—Continued

	Page
<i>Teleprompter Corp. v. Columbia Broadcasting System, Inc.</i> , 415 U.S. 394 (1974)	3
<i>United Mine Workers, District 12 v. Illinois State Bar Ass'n</i> , 389 U.S. 217 (1967)	25
<i>United States v. Leon</i> , 468 U.S. 897 (1984)	44
<i>Vendo Co. v. Lektro-Vend Corp.</i> , 433 U.S. 623 (1977)	22
<i>Video Views, Inc. v. Studio 21, Ltd.</i> , 925 F.2d 1010 (7th Cir.), cert. denied, 112 S. Ct. 181 (1991)	6
<i>Wilson v. Seiter</i> , 111 S. Ct. 2321 (1991)	22
<i>Wyatt v. Cole</i> , 60 U.S.L.W. 4383 (U.S. May 18, 1992)	14, 36, 37
<i>Yee v. City of Escondido</i> , 112 S. Ct. 1522 (1992)	14

Statutes:

<i>Sherman Act</i> , 15 U.S.C. §§ 1-2	6
15 U.S.C. § 78j (b)	35, 36
17 U.S.C. § 101	4, 16
17 U.S.C. § 106 (4)	4
17 U.S.C. § 111 (a) (1)	16
29 U.S.C. § 160	42

Miscellaneous:

<i>P. Areeda & D. Turner, Antitrust Law</i> (1978)	30
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<i>Balmer, Sham Litigation and the Antitrust Laws</i> , 29 Buffalo L. Rev. 39 (1980)	13, 32, 42, 43
<i>Baumol & Ordover, Use of Antitrust to Subvert Competition</i> , 28 J.L. & Econ. 247 (1985)	27
<i>R. Bork, The Antitrust Paradox</i> (1978)	13, 20, 43
<i>Dobbs, Belief and Doubt in Malicious Prosecution and Libel</i> , 21 Ariz. L. Rev. 607 (1979)	37
<i>Easterbrook, The Limits of Antitrust</i> , 63 Tex. L. Rev. 1 (1984)	27
<i>P. Goldstein, Copyright: Principles, Law and Practice</i> (1989)	6
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TABLE OF AUTHORITIES—Continued

	Page
W.P. Keeton, D. Dobbs, R. Keeton & D. Owen, <i>Prosser and Keeton on the Law of Torts</i> (5th ed. 1984)	36, 37, 38
Klein, <i>Strategic Sham Litigation: Economic Incen- tives in the Context of the Case Law</i> , 6 <i>Int'l Rev. L. & Econ.</i> 241 (1986)	31, 35
Klein, <i>Predation in the Courts: Legal Versus Eco- nomic Analysis in Sham Litigation Cases</i> , 10 <i>Int'l Rev. L. & Econ.</i> 29 (1990)	45
M. & D. Nimmer, <i>Nimmer on Copyright</i> (1992)	6
Note, <i>Limiting the Antitrust Immunity for Con- certed Attempts to Influence Courts and Adjudi- catory Agencies: Analogies to Malicious Prose- cution and Abuse of Process</i> , 86 <i>Harv. L. Rev.</i> 715 (1973)	36, 38
<i>Restatement (Second) of Torts</i> (1977)	36

In the Supreme Court of the United States

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v.

COLUMBIA PICTURES INDUSTRIES, INC., ET AL.,
RESPONDENTS

On Writ of Certiorari to the
United States Court of Appeals
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BRIEF FOR THE RESPONDENTS

OPINIONS BELOW

The opinion of the court of appeals on the antitrust counterclaims (Pet. App. 1a-19a) is reported at 944 F.2d 1525. The judgment of the district court on the antitrust counterclaims (Pet. App. 20a-22a) is unreported; the court's opinion (Pet. App. 23a-25a) is unofficially reported at 1990-1991 Trade Cas. (CCH) ¶ 68,971. The opinion of the court of appeals (Pet. App. 26a-37a) on the copyright infringement claim is reported at 866 F.2d 278; the judgment and findings of the district court on that claim (Pet. App. 38a-50a) are unofficially reported at 228 U.S.P.Q. 743.

JURISDICTION

The judgment of the court of appeals was entered on September 24, 1991. The petition for a writ of certiorari was filed on December 23, 1991, and was granted on

March 30, 1992. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT

This case requires the Court to determine when the filing of a lawsuit may give rise to treble-damages liability under the antitrust laws. Petitioners assert that the governing standard turns *solely* on the antitrust defendant's subjective motive in instituting the lawsuit. They contend, therefore, that every antitrust plaintiff who asserts a claim based on the filing of a lawsuit must be permitted to engage in discovery.

The court of appeals held, correctly we submit, that the applicable standard has two elements, one objective and one subjective. Where the lawsuit in question was reasonably grounded in fact and law and involved no flagrant abuses in the litigation process, there is no need to inquire into subjective motivation: such an action cannot constitute a "mere sham" within the meaning of *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), and *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). Only when this objective test is not satisfied is it appropriate to investigate the subjective motivation of the party who filed the lawsuit.

The district court determined that respondents' copyright claim could not give rise to antitrust liability because it passed muster under the objective component of the sham standard. On appeal, petitioners pressed their different conception of the proper sham standard, but "d[id] not challenge" the district court's finding that respondents' copyright infringement claim was "brought with probable cause and presented issues that were difficult to resolve." Pet. App. 15a. The statement of the case contained in petitioners' brief in this Court, by contrast, appears designed largely to cast doubt on the legitimacy of the copyright claim. Petitioners' failure to dis-

pute this issue in the court below forecloses them from raising it here. *DeShaney v. Winnebago County Department of Social Services*, 489 U.S. 189, 195 n.2 (1989). Petitioners' multiple misstatements nevertheless compel us to discuss the history of this litigation in some detail.

A. The Copyright Infringement Action

Respondents produce and distribute copyrighted motion pictures and television programs. Pet. App. 29a, 41a. They have in recent years instituted copyright infringement actions—the only means available to protect the rights conferred by the Copyright Act—in order to prevent erosion of their statutory rights by new technological developments. See, e.g., *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974); *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986); *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984). Not only copyright holders, but also the proponents of new technology, have sought the certain resolution of these difficult questions of statutory construction that only a judicial decision can provide. See, e.g., *On Command Video Corp. v. Columbia Pictures Industries*, 777 F. Supp. 787 (N.D. Cal. 1991) (declaratory judgment action instituted against respondents by party seeking to use copyrighted material).

Petitioners own and operate La Mancha Private Club and Villas, a resort in Palm Springs, California. Pet. App. 42a-43a. The La Mancha facility is "unquestionably open to the public." *Id.* at 43a (emphasis omitted). Beginning in late 1981, petitioners purchased videodiscs containing respondents' copyrighted movies and television programs and placed a videodisc player in each unit of their resort. "Guests at [petitioners'] resort could, for a fee ranging from \$5.00 to \$7.50, rent the videodiscs, take them back to their accommodations, and watch the movie

on the television[] sets and videodisc players furnished in each unit." *Id.* at 44a.

During the early 1980s, other businesses also employed video technology to profit from unlicensed on-premises performances of respondents' copyrighted films and programs. Some home video equipment store owners, for example, constructed private "viewing booths" in which patrons could—for a fee—view videocassettes of movies of their choosing. See *Aveco*, 800 F.2d at 61; *Redd Horne*, 749 F.2d at 156-157.

Respondents instituted the *Aveco* and *Redd Horne* copyright infringement actions against the video store owners and the current action against petitioners, all on the theory that the performances of the copyrighted works occurred "at a place open to the public" (17 U.S.C. § 101) and therefore infringed respondents' exclusive right "to perform the copyrighted work publicly." *Id.* § 106(4). Respondents prevailed in *Redd Horne* and *Aveco*. "The Copyright Act speaks of performances at a place open to the public," the *Aveco* court stated. 800 F.2d at 63. "A telephone booth, a taxi cab, and even a pay toilet are commonly regarded as 'open to the public,' even though they are usually occupied only by one party at a time." *Ibid.* Because the operators of the video stores were "willing to make a viewing room and video cassette available to any member of the public with the inclination to avail himself of this service," the individual viewing rooms within the stores were public places within the meaning of the Copyright Act. *Ibid.*; see also *Redd Horne*, 749 F.2d at 159.

The litigation of the copyright claim in the present case was unremarkable.¹ Respondents took only minimal dis-

¹ Petitioners imply (Br. 6-7) something sinister from the fact that, before filing suit, respondents sent a letter protesting what they viewed as petitioners' infringement of their legal rights. But there is nothing unusual in providing this courtesy before filing a lawsuit. The alternative would be to institute legal proceedings

covery—they obtained some documents and took a single deposition for two days. J.A. 116.² Ruling on cross-motions for summary judgment, the district court rejected the infringement claim. Pet. App. 45a.

The court of appeals affirmed. It stated that "[petitioners'] operation differs from those in *Aveco* and *Redd Horne* because its 'nature' is the providing of living accommodations and general hotel services, which may incidentally include the rental of videodiscs to interested guests for viewing in guest rooms." Pet. App. 32a-33a. "[T]he hotel may indeed be 'open to the public,'" the court stated, but "[t]he movies are viewed exclusively in

without any opportunity for the prospective defendant to avoid litigation by agreeing to stop the offending practice or persuading the would-be copyright plaintiff that it is lawful.

² Attempting to create the false impression that litigation of the copyright claim was extremely burdensome, petitioners (Br. 8) refer to respondents' "insist[ence] upon litigating their copyright claim to the bitter end" and note that the issue took "six years to resolve." See also Br. 29 (copyright claim took "seven years" to resolve). In fact, the proceeding was not burdensome for petitioners. See J.A. 116 (parties' joint report that "there are probably few, if any, factual disputes" and case "revolves instead around a single issue of law"). The complaint was filed in April 1983; petitioners requested several extensions of time to pursue settlement discussions and filed their answer and antitrust counterclaims in February 1984. After further settlement negotiations (see J.A. 115-116), respondents filed their reply to the counterclaims in August 1984. The parties then engaged in discovery relating to the copyright claim. Respondents' motion for summary judgment was filed in September 1985; petitioners' summary judgment motion was filed in October 1985; and the district court issued its ruling in December 1985. Respondents appealed in January 1986, and the court of appeals issued its ruling three years later in January 1989. (The case was reargued due to changes in the composition of the panel. See Pet. App. 27a-28a n.*.) The vast majority of the 69 months the claim was pending were thus consumed by settlement negotiations and the proceedings on appeal; in view of the limited discovery and the fact that the case was concluded by summary judgment, the actual litigation burden on petitioners was minimal.

guest rooms, places where individuals enjoy a substantial degree of privacy, not unlike their own homes." *Id.* at 33a.

The Ninth Circuit's ruling on respondents' copyright claim was and is controversial. According to one leading commentator, "hotel rooms should be considered public places for purposes of section 101." 1 P. Goldstein, *Copyright: Principles, Law and Practice* § 5.7.2.2, at 619 (1989).³ In addition, another federal court of appeals has expressly "decline[d] to follow" the Ninth Circuit's decision, assuming without deciding that it may be inconsistent with *Redd Horne* and *Aveco* and agreeing with the latter decisions that the proper standard for determining whether a place is open to the public turns on "the nature of the place in which the private video booths are located, and whether it is a place where the public is openly invited." *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1020 (7th Cir.), cert. denied, 112 S. Ct. 181 (1991).

B. The Antitrust Counterclaims

Petitioners' answer to the copyright claim asserted counterclaims under Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1-2, and state law. It alleged that respondents conspired to monopolize and otherwise restrain trade in the "retail sale and rental of videodiscs" through several actions: "the filing of [the copyright infringement] suit, which is a sham and false and known by [respondents] to be so; bad faith prosecution of this suit; boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs; and other activities." J.A. 38. Petitioners demanded treble damages under the antitrust

³ See also 2 M. & D. Nimmer, *Nimmer on Copyright* § 8.14[C], at 8-170 to 8-173 (1992) (suggesting that *Redd Horne* and *Aveco* were correctly decided and that, even if the line drawn by the Ninth Circuit properly distinguished those cases, respondents should have prevailed on their copyright claim on a different ground).

laws and \$10 million in punitive damages under state law. J.A. 45-47.⁴

After ruling on the copyright infringement claim, the district court stayed proceedings on the antitrust counterclaims pending the court of appeals' disposition of the copyright issue. J.A. 489-490.⁵ Following the court of

⁴ Petitioners sought extensive discovery relating to their counterclaims. Each respondent was served with an identical document, demand seeking, among other things, all communications between each of the respondents and "any other person or persons concerning any and all licensing and rental agreements for videodiscs and videotapes"; any documents relating to "any policy" of respondents "or any other person or persons regarding the licensing of, authorization of, or restrictions to be imposed on the resale or rental of videodiscs or videotapes"; all documents relating to "any meeting or communication" between each respondent and "any other person or persons with respect to any proposed, suggested, or recommended policy, action, or discussion concerning the sale or rental of videodiscs or videotapes by or to any person or persons"; and "[a]ny and all documents submitted to, received from, filed with, or issued by the Motion Picture Association of America, Inc., or any other trade association or similar business association" that relate to "the sale or rental of videodiscs or videotapes by or to any person or persons." Finally, all of these requests for production of documents extended to respondents' "directors, officers, employees, representatives, agents and attorneys, and any predecessor, successor, parent, subsidiary and affiliate, whether in the United States or foreign" (emphasis added). Appellees' C.A. Br. App. 202, 206-208.

⁵ Petitioners try to create the false impression (Br. 9) that the district court ignored their motions to compel discovery. The court held a hearing on petitioners' first motion, at which respondents' counsel explained that the portions of the discovery demands relating to the antitrust counterclaims were extremely burdensome. 9/18/85 Tr. 14-15. Respondents previously had filed a declaration explaining that it could take 4 months and cost approximately \$2.3 million to comply with petitioners' discovery requests. J.A. 190-191. The district court, observing that petitioners had "expressed a willingness to carve down your antitrust demands, presumably, rather substantially," directed the parties to try to reach agreement on the discovery issues. 9/18/85 Tr. 16. The court also held a hearing on petitioners' second motion to compel. The court denied the

appeals' copyright decision, respondents filed a motion for summary judgment. The district court granted the motion and dismissed petitioners' antitrust claims. The court recognized that, under *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), the filing and prosecution of a lawsuit generally may not serve as a basis for antitrust liability. Only litigation that is a "sham" is exempted from this protection. Pet. App. 23a. The district court stated that the copyright claim was not a sham because "there was probable cause for bringing the action" and, indeed, it raised issues that were "far from easy to resolve." *Id.* at 24a.⁶

The court of appeals affirmed. It first considered petitioners' allegations of anticompetitive conduct other than the filing of the copyright action. On the claim that respondents refused to grant licenses to petitioners after commencement of the infringement action, the court stated that petitioners' "request for licensing amounted to an offer to settle the lawsuit" because, if respondents had agreed to issue licenses, the litigation would have been moot. Pet. App. 8a-9a. The court determined that "[a] decision to accept or reject an offer of settlement is

motion, saying, "the discovery sought by the defendants is much too broad and * * * the parties and the court can consider the discovery requested by the defendants in light of what the Ninth Circuit does" on the copyright claim. 3/24/86 Tr. 4; see also J.A. 489-490.

⁶ Petitioners intimate (Br. 9-10 & n.5) that the district court somehow changed course by ordering discovery on the counterclaims and later granting respondents' motion for summary judgment before discovery was completed. But the district court established a discovery schedule before respondents filed their motion for summary judgment, and therefore before considering whether respondents were entitled to prevail as a matter of law. In granting the motion, the court expressly held that petitioners were not entitled to discovery. Pet. App. 24a; see also *id.* at 17a-18a (court of appeals rejected petitioners' contention that the district court did not address petitioners' request for discovery).

conduct incidental to the prosecution of the suit"; whether this litigation-related activity could be a basis for liability therefore depended on whether the copyright suit was a mere sham actionable under the antitrust laws. *Id.* at 9a.

With respect to petitioners' other unsubstantiated allegations—concerning threatened copyright actions against other hotels, restrictive distribution agreements, misleading warning labels, and threatening advertisements in hotel trade journals—the court held that petitioners

failed to demonstrate that the alleged conduct caused antitrust injury. [Petitioners] neither pleaded nor presented evidence that the La Mancha Resort's videodisc rental service had been interrupted, that the Resort lost a single guest, or that [respondents'] conduct prevented [petitioners] from marketing the Resort's video viewing system to other hotels.

Pet. App. 9a (citation omitted).⁷

Next, the court turned to the question whether the copyright litigation constituted a mere sham. It held that "an antitrust plaintiff must make a two-part showing to support a finding of sham: (1) that the suit is baseless—a legal question; and (2) that the suit was brought as part of an anticompetitive plan external to the underlying litigation—a question of fact." Pet. App. 15a-16a (citation omitted).⁸ The court stated that,

[i]n the present case, [respondent's] copyright infringement suit presented an issue of first impression both at the district court level and in this cir-

⁷ The court observed that petitioners "did not need formal discovery procedures" to obtain proof that they themselves had suffered injury as a result of this conduct. Pet. App. 9a.

⁸ The court also stated that proof that a lawsuit involved misrepresentations would satisfy the objective component of the sham test, but observed that petitioners made no such allegation in this case. Pet. App. 11a.

cuit. The first amendment right of petition is particularly strong in such a case. The district court concluded that the lawsuit was brought with probable cause and presented issues that were difficult to resolve. This finding, which [petitioners] do[] not challenge, precludes the application of the sham exception as a matter of law.

Id. at 15a (footnote omitted).

The court of appeals rejected petitioners' contention that, notwithstanding the objective reasonableness of the copyright claim, "the copyright infringement lawsuit is a sham because [respondents] did not honestly believe that the infringement claim was meritorious." Pet. App. 11a. Citing the "chilling effect on those who seek redress in the courts," the court held that it would "erode the first amendment right to petition that is the basis for the *Noerr-Pennington* doctrine" to "hold[] that a suit brought with probable cause in fact and law may be a sham." *Id.* at 14a-15a (emphasis omitted).

Finally, the court of appeals held that the district court had properly determined that petitioners were not entitled to discovery before entry of summary judgment. "[E]vidence of [respondents'] subjective intent was relevant only if it was shown that the copyright infringement action was baseless." Pet. App. 18a. Because the copyright action was well grounded, and the claim of sham therefore could not prevail, "[petitioners'] discovery of [respondents'] subjective intent would not raise an issue of material fact sufficient to preclude the entry of summary judgment." *Ibid.*

SUMMARY OF ARGUMENT

The only issue before this Court is whether respondents' copyright lawsuit constituted a "mere sham" within the meaning of *Noerr*, 365 U.S. at 144. Respondents' attempts to revive other accusations of anticompetitive conduct, which the Ninth Circuit rejected and which were not the subject of the certiorari petition or grant, are not germane to the question this Court must decide. Because the lower courts properly concluded that the copyright suit had objective merit, the suit was not a sham.

The standard for determining whether a lawsuit is a "mere sham" has both objective and subjective components, as the Ninth Circuit correctly held. When the objective component is not met—when the lawsuit in question was well grounded and there was no flagrant abuse of the litigation process—establishing the subjective component of the test could not possibly lead to a finding of "mere sham," and it is pointless to permit discovery or other inquiry into subjective motive. Petitioners' contrary position—that there must be discovery, an inquiry into subjective motive, and apparently a jury determination in every case—is inconsistent with both precedent and the underlying policies of the *Noerr* doctrine and its "mere sham" exception.

Noerr rests principally on the proposition that the Sherman Act simply does not reach political activity. First Amendment considerations as well as other tools of statutory construction impelled the Court to that holding, but in the end *Noerr* rested squarely on interpretation of the statute. *Noerr* defines the area of protected activities in expansive terms, with only a narrow exception for "mere shams." This Court has never held that only activities squarely protected by the First Amendment are beyond the reach of the Sherman Act.

In the litigation context, there are several reasons to maintain as the standard for identifying "mere sham[s]" proof by the antitrust plaintiff of both objective and

subjective components. First, there is no reason to depart from what this Court has already said. In *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973), for example, the Court summarized its prior cases as condemning only "repetitive lawsuits carrying the hallmark of insubstantial claims." *Id.* at 380 (emphasis added); see also *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S. Ct. 1344, 1354 (1991) ("frivolous objections").

Second, the considerations underlying *Noerr* require an objective element as part of the sham inquiry. Again, the Court has already said this. In *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731 (1983), the Court, although construing a different statute (the National Labor Relations Act), relied on exactly the same First Amendment considerations that it cited in *Noerr* and even drew directly on its antitrust decisions in fashioning a standard in the labor context. The Court concluded that a lawsuit can constitute an enjoined unfair labor practice *only* if it is "baseless," rejecting the Labor Board's contention that an improper subjective motivation is enough. Other First Amendment doctrines lead to the same conclusion. This Court consistently has interpreted the First Amendment to avoid any "chilling effect" on protected activity; it has for the same reason narrowly construed federal statutes that touch on First Amendment concerns. The need to avoid a chilling effect is especially significant in the antitrust context, where treble damages and intrusive discovery could easily deter the bringing of lawsuits that should be brought. Imposing a threshold objective criterion serves the goal of not chilling desirable activities.

There are also immense practical problems with a purely subjective test. Such a test turns on the "intent" of corporate actors, an inquiry that is difficult and uncertain at best. In related areas of antitrust law—such as monopolization and predatory pricing—courts have consistently condemned intent-based tests, and a *purely*

intent-based test is similarly improper in this context. Such a test also would invite massive discovery abuses, as petitioners' discovery efforts in this case illustrate all too well. This Court often takes account of the potential for such abuse when it fashions substantive liability rules. See, e.g., *Harlow v. Fitzgerald*, 457 U.S. 800, 817 (1982); *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 741 (1975).

Analogies to the common law also support a standard with an objective component. The tort of malicious prosecution, for example, requires a lawsuit brought without probable cause; improper motive is not enough. The abuse-of-process tort likewise requires an improper act as well as an ulterior purpose. The snippets from lower court decisions on which petitioners rely as a substitute for analysis of *Noerr* and its underlying policies cannot overcome these many reasons for recognizing an objective component to the "mere sham" standard.

In a case such as this one involving no misrepresentations or other litigation abuses, the objective component requires the antitrust plaintiff to prove that the original lawsuit was baseless. Petitioners do not truly contend otherwise; rather, they deny that *any* objective component exists. This standard is a proper prerequisite for finding a "mere sham" because it comports with both this Court's cases and the views of leading commentators on the *Noerr* doctrine itself. See *Bill Johnson's*, 461 U.S. at 743; *Harlow v. Fitzgerald*, 457 U.S. at 817-819; P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 203.1e (Supp. 1991); Handler & De Sevo, *The Noerr Doctrine and Its Sham Exception*, 6 Cardozo L. Rev. 1, 30-31, 40, 52-53, 55 (1984); Balmer, *Sham Litigation and the Antitrust Laws*, 29 Buffalo L. Rev. 39, 56, 68 (1980); R. Bork, *The Antitrust Paradox* 358-359 (1978).

ARGUMENT

RESPONDENTS' COPYRIGHT INFRINGEMENT ACTION WAS NOT A "MERE SHAM"

This Court has made clear that litigation and other attempts to influence government action generally may not serve as a basis for antitrust liability. *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961). The Sherman Act applies only if what appears to be an attempt to influence government is "a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor." *Id.* at 144. The lower courts correctly concluded that respondents' copyright claim was not a sham.

The certiorari petition in this case presented a single question: "[w]hether the Ninth Circuit misconstrued the sham exception to the *Noerr-Pennington* doctrine." Pet. i. At several points in their brief, however, petitioners address the court of appeals' unrelated determinations that petitioners could not support their antitrust claims on grounds *other than* the filing of the copyright infringement action—the alleged refusal to license petitioners (*i.e.*, the refusal to settle this case on the terms demanded by petitioners), the purportedly restrictive licensing agreements and overbroad copyright warnings, and other allegations. See, *e.g.*, Br. 14, 29-30, 31-32. Petitioners did not seek review of the court of appeals' rejection of these claims. Petitioners accordingly may not seek to rehabilitate those claims in this Court. *E.g.*, *Yee v. City of Escondido*, 112 S. Ct. 1522, 1532-1534 (1992); see also *Wyatt v. Cole*, 60 U.S.L.W. 4383, 4386 (U.S. May 18, 1992). The sole question ~~here~~ is whether respondents' prosecution of the copyright lawsuit may be actionable under the antitrust laws even though the suit was reasonably grounded and was not accompanied by any abuses in the litigation process.

Petitioners' submission on that question is breathtaking in its simplicity. They contend that if the suit were "brought with indifference to its outcome" (Pet. Br. 13), it would be a mere sham *even if the antitrust defendant prevailed*. The applicability of the "mere sham" exception would turn solely on the antitrust defendant's subjective motive in instituting the lawsuit at issue. The corollary of petitioners' legal standard is that the antitrust plaintiff must in every case be permitted discovery on the question of the antitrust defendant's motivation in filing the lawsuit. See Pet. Br. 13. Even when, as in this case, the antitrust plaintiff has no objective evidence that the defendant acted with the motive alleged by petitioners, discovery must be permitted, petitioners assert, because the critical information regarding subjective motive is in the hands—and the mind—of the antitrust defendant.

Petitioners are wrong. Even when an inquiry into subjective motive is appropriate, petitioners' "indifference" standard would not apply. The proper inquiry is whether the defendant's prosecution of the lawsuit was "not genuinely aimed at procuring favorable government action' *at all*," but rather was designed solely "to disrupt [the antitrust plaintiff's] business relationships" through "the very process of [litigation]." *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S. Ct. 1344, 1354 (1991) (citation omitted; emphasis added); cf. *Noerr*, 365 U.S. at 143 (fact that lobbying campaign "was intended to and did in fact" directly injure antitrust plaintiffs "as an incidental effect of the * * * campaign to influence governmental action" did not permit imposition of antitrust liability).

More fundamentally, petitioners' formulation of the legal standard is incorrect. The test for determining whether a lawsuit is a mere sham contains an objective and a subjective element, each of which must be satisfied. The courts below properly concluded (Pet. App. 15a)

that petitioners' claim of sham could not succeed because respondents' copyright claim was reasonably grounded in law and fact.⁹

⁹ Petitioners try (Br. 11 n.6, 29 n.18) to create the impression that respondents must have been indifferent to the outcome of this case because Congress's actions and a statement in a brief filed by respondents in another case supposedly showed that respondents knew that their legal position could not prevail in this case. That contention is entirely without foundation. Both courts below, in their copyright and antitrust decisions, deemed the contention unworthy of mention—and for good reason.

First, petitioners assert (Br. 5-6 & n.4) that the Copyright Act's treatment of hotel rooms, together with Congress's failure to amend that law in particular respects, established that respondents could not prevail on their infringement claim. The provision of the Act (and related legislative history) on which petitioners rely (Br. 5-6) addresses an entirely unrelated issue—a hotel's retransmission of broadcast signals to guest rooms (see 17 U.S.C. § 111(a)(1)). That provision does not purport to define hotel rooms as "private" for any purpose and does not at all address the copyright issue in this case: whether hotel rooms are "open to the public" within the meaning of 17 U.S.C. § 101. The 1961 Register of Copyright reports and respondents' 1983 legislative proposal (Pet. Br. 6 & n.4) involved, respectively, the copyright holder's right to control private performances *in the home* and to share in revenues of retail rentals of videodiscs and videocassettes; neither has anything to do with whether a performance in a hotel room constitutes a public performance. See J.A. 589-592 (respondents' district court brief addressing these issues).

Second, petitioners claim (Br. 3-4 n.1) that respondents "admitted" in other litigation that hotel rooms were "private," citing as support a single sentence in respondents' district court reply brief in the *Aveco* litigation. That sentence, written in response to a parade of hypothetical examples advanced by the defendants in that case—only one of which involved a motel room—is not probative of any issue relevant here. To treat respondents' response to a hypothetical example as evidence that respondents "knew" they could not prevail in a separate copyright case, one would have to believe that respondents "knew" that the Ninth Circuit would reject a position that commentators and other courts support. See pages 4-6, *supra*. Again, neither court below found any of this "evidence" worthy of discussion at any point in this case.

A. The Sherman Act Does Not Reach Requests For Government Action Except In The Narrow Category Of "Mere Sham[s]."

This Court took as its "starting point" in *Noerr* that a violation of the Sherman Act may not be premised upon "attempts to influence the passage or enforcement of laws." 365 U.S. at 135. A contrary conclusion, the Court stated, "would impute to the Sherman Act a purpose to regulate, not business activity, but political activity, a purpose which would have no basis whatever in the legislative history of that Act." *Id.* at 137 (footnote omitted); see also *id.* at 141 (antitrust laws "not at all appropriate for application in the political arena"); *City of Columbia*, 111 S. Ct. at 1354 (same). "Secondly, and of at least equal significance, such a construction of the Sherman Act would raise important constitutional questions. The right of petition is one of the freedoms protected by the Bill of Rights, and we cannot, of course, lightly impute to Congress an intent to invade these freedoms." *Noerr*, 365 U.S. at 137-138.

The *Noerr* Court went on to define in expansive terms the class of activities excluded from the reach of the Sherman Act, rejecting each of the grounds on which the lower courts had distinguished the challenged conduct from legitimate political activity. That the defendants acted with an anticompetitive purpose was held irrelevant (365 U.S. at 139-140); that the challenged activities had "a commercial impact and involve[d] conduct that can be termed unethical" did not matter (*id.* at 141); and that "the [defendants'] campaign was intended to and did in fact injure the [plaintiffs] in their relationships with the public and with their customers [meant] no more than that the [plaintiffs] sustained some direct injury as an incidental effect of the [defendants'] campaign to influence governmental action," something that the Court deemed an "inevitable" effect of any attempt to influence legislation through a publicity campaign. *Id.* at 143.

The Court observed that "[t]here may be situations in which a publicity campaign, ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified." 365 U.S. at 144. But it determined that "no attempt to interfere with business relationships in a manner proscribed by the Sherman Act" was present in that case. *Ibid.*

Later, in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), the Court held that *Noerr*'s rationale applies equally to attempts to influence decisions of "courts, the third branch of Government." *Id.* at 510. "We conclude that it would be destructive of rights of association and of petition to hold that groups with common interests may not, without violating the antitrust laws, use the channels and procedures of * * * courts to advocate their causes and points of views respecting resolution of their business and economic interests *vis-à-vis* their competitors." *Id.* at 510-511. The Court elaborated on *Noerr*'s reference to liability based on "a mere sham" (*id.* at 511) and, as we discuss in detail below (at 21), determined that the allegations in that case did state a claim on a sham theory.

Two fundamental points are clear from these decisions. First, the Court has defined the *Noerr* doctrine in extremely broad terms: "the federal antitrust laws * * * do not regulate the conduct of private individuals in seeking anticompetitive action from the government." *City of Columbia*, 111 S. Ct. at 1354. The rule permitting the imposition of antitrust liability for a "mere sham" is a narrow exception to this general principle of *nonliability*.

Second, although First Amendment considerations strongly supported the Court's determination in *Noerr* (365 U.S. at 137-138), in the end the holding rested

squarely on *statutory interpretation*: the Sherman Act simply does not reach "political activity."¹⁰ Petitioners repeatedly ignore the statutory underpinnings of *Noerr* and assert that conduct is not excluded from the Sherman Act under the *Noerr* doctrine unless the particular conduct is "immunized from government regulation by the First Amendment." Pet. Br. 26; see also *id.* at 27 n.15 (Court must find that "petitioning conduct is subject to constitutional protection" in order to hold that it is not a "sham"). That contention is inconsistent with the language of *Noerr* and with this Court's application of the *Noerr* principle. In *City of Columbia*, for example, the Court indicated that *Noerr* excludes from the scope of the Sherman Act even conduct, such as bribery, that plainly lacks constitutional protection. 111 S. Ct. at 1353, 1356.

Because this Court's task is to interpret the statute—and because this particular statute confers on the courts broad authority to devise appropriate legal standards (cf. *Business Electronics Corp. v. Sharp Electronics Corp.*, 485 U.S. 717, 732 (1988))—the Court has a much freer hand to fashion sensible rules than it would have if this case called for a resolution of the outer limits of Congress's power under the First Amendment. See *City of Columbia*, 111 S. Ct. at 1354-1356 (looking to policy considerations in determining scope of *Noerr* immunity).

¹⁰ See, e.g., *Noerr*, 365 U.S. at 136 ("where a restraint upon trade or monopolization is the result of a valid governmental action, as opposed to private action, no violation of the Act can be made out"); *ibid.* ("the Sherman Act does not prohibit two or more persons from associating together in an attempt to persuade the legislature or the executive to take particular action with respect to a law that would produce a restraint or a monopoly"); *id.* at 138 ("the Sherman Act does not apply to * * * mere solicitation of governmental action"); *id.* at 139 ("the Act does not apply to mere group solicitation of governmental action"); *ibid.* ("[w]e reject such a construction of the Act"); *id.* at 144 ("this has not been done by anything in the Sherman Act").

B. The Standard For Determining Whether A Lawsuit Is A Sham Has Both Objective And Subjective Components.

Petitioners argue that the *only* relevant standard for determining whether a lawsuit is a "mere sham" is "subjective intent," which plays a "paramount role." Pet. Br. 17. Objective factors, petitioners say, are merely "probative * * * of the critical issue of the litigant's subjective intent in bringing the action." Pet. Br. 23. Thus, any lawsuit—regardless of its merit—may be a "mere sham," and even a prevailing party may be subjected to onerous discovery and the threat of treble-damages liability.

The court of appeals properly rejected petitioners' contention, holding that an antitrust plaintiff relying on a sham theory must satisfy an objective standard. Respected commentators agree: "[a]s a matter of principle, * * * it seems wise policy to hold business actors to a standard of reasonable care in using governmental machinery." P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 203.1c, at 24 (Supp. 1991); see also R. Bork, *The Antitrust Paradox* 359 (1978) ("[r]egardless of intent, parties can be held liable only if they employ means of influencing governmental action that are themselves illegal or reprehensible"); Handler & De Sevo, *The Noerr Doctrine and Its Sham Exception*, 6 Cardozo L. Rev. 1, 30-31, 40 (1984) ("Noerr cannot be harmonized with a holding that nonbaseless claims can be classified as sham merely because their assertion rests upon an improper motive"). The relevant decisions of this Court and the policies underlying the *Noerr* doctrine strongly support that conclusion.

1. This Court's Opinions Addressing The "Mere Sham" Exception Establish That Only Objectively Unreasonable Litigation May Be Subjected To Antitrust Scrutiny.

This Court has said many times that a showing that the antitrust defendant had the subjective intent to harm

the antitrust plaintiff through the process of litigation is *necessary* before a court may deem that litigation a sham. Petitioners err, however, in asserting that this Court has said that such a showing is by itself *sufficient*. To the contrary, this Court has said several times that the "mere sham" exception to the *Noerr* doctrine encompasses litigation that was frivolous, baseless, insubstantial, lacking in probable cause, or otherwise *objectively* condemnable.

Justice Douglas's opinion for the Court in *California Motor Transport Co. v. Trucking Unlimited*, *supra*, was the first case to provide guidance on what the Court meant in *Noerr* by the words "mere sham." *California Motor Transport* addressed a situation wholly unlike this case: *repetitive* litigation designed to deny the adversary meaningful access to the courts. See 404 U.S. at 511, 512, 515. The opinion is nevertheless instructive as to the objective component of the "mere sham" exception in a litigation context. The Court set out a number of examples of the type of conduct that could constitute a sham, referring to objectively "unethical conduct in the setting of the adjudicatory process," such as "[p]erjury," "[u]se of a patent obtained by fraud," "bribery," or "[m]isrepresentations." *Id.* at 512-513. Most important, the Court stated that, in the absence of such misconduct, the sort of litigation conduct that constitutes a "mere sham" is "a pattern of baseless, repetitive claims" establishing that the "judicial processes have been abused." *Id.* at 513.

One need not guess whether the Court in that case was delineating the boundaries of the "mere sham" exception or just providing examples of "mere shams." The Court, again speaking through Justice Douglas, had the opportunity to address the same issue the very next Term in *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973). Vacating a district court opinion that had been decided without benefit of *California Motor Transport*, this Court remanded to the district court for a determination whether Otter Tail had engaged in "repeti-

tive lawsuits *carrying the hallmark of insubstantial claims.*" *Id.* at 380 (emphasis added). *Otter Tail* leaves no doubt that the Court reserved the pejorative label "mere sham"—and the antitrust consequences that flow from that label—for litigation with *objective* indicia of lack of substance. See also *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623, 644 (1977) (Blackmun, J., concurring) (adopting *Otter Tail* formulation).

The Court's two most recent decisions addressing the "mere sham" exception to the *Noerr* doctrine concern themselves primarily with the *subjective* component of that standard. *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 n.4, 507-508 n.10 (1988); *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S. Ct. at 1353-1356. Therefore, they largely fail to address the issue before the Court in this case, which is the existence and content of a further, necessary, *objective* component. Of course, the lack of emphasis in those cases on the objective component cannot fairly be read as meaning that the objective component does not exist—especially in the face of the recognition of that component in *California Motor Transport* and *Otter Tail*. Rather, the objective component simply was not the subject of the disputes before this Court.¹¹

Even so, both *Allied* and *City of Columbia* lend further support to the decision below. Although no question regarding the scope of the "mere sham" exception was before the Court in *Allied*, the Court noted the exception in its opinion, emphasizing the need for "‘intelligible guidance’ to courts or litigants" (486 U.S. at 508 n.10), guidance that hardly will exist if objectively reasonable lawsuits are left in the hands of juries deconstruct-

¹¹ Cf. *Wilson v. Seiter*, 111 S. Ct. 2321, 2324 (1991) ("[o]ur holding in *Rhodes* turned on the objective component of an Eighth Amendment prison claim * * *, and we did not consider the subjective component"); *California v. Hodari D.*, 111 S. Ct. 1547, 1551-1552 (1991) (prior decisions state "a necessary, but not a sufficient condition") (emphasis in original).

ing the subjective intent of collective actors. More pointedly, the Court in *City of Columbia* emphasized that "the filing of *frivolous* objections to the license application of a competitor" is the "classic example" of unprotected sham conduct. 111 S. Ct. at 1354 (emphasis added). The Court had no occasion to delineate the outer limits of the objective component of the sham exception, but the language it chose accords with its consistently expressed view that such a component *does* exist.

2. *The Considerations Underlying Noerr Require An Objective Component As The Threshold Element Of The Sham Inquiry.*

As the Ninth Circuit held (Pet. App. 16a), this Court has already determined that the *Noerr* doctrine demands proof that a lawsuit is objectively unreasonable before the suit may provide grounds for antitrust liability. In *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731 (1983), the question was whether the Labor Board could enjoin—as an unfair labor practice—the filing of a lawsuit. The Board asserted that it could issue an injunction upon proof that the suit was filed for a retaliatory motive. The Court held that improper motive alone was not sufficient: "[t]he filing and prosecution of a well-founded lawsuit may not be enjoined as an unfair labor practice, even if it would not have been commenced but for the plaintiff's desire to retaliate against the defendant for exercising rights protected by the Act." *Id.* at 743. The Board could act only if it determined that the lawsuit was "baseless." *Id.* at 743, 744. See also *id.* at 755 (Brennan, J., concurring) (only "frivolous lawsuits" may be enjoined).¹²

¹² The Court went on to state that, if the plaintiff ultimately prevails in the lawsuit in question, he "should also prevail before the Board, for the filing of a meritorious lawsuit, even for a retaliatory motive, is not an unfair labor practice." 461 U.S. at 747. In that context, too, the Court rejected application of the Board's standard based solely on subjective motive.

Although the precise question before the Court in *Bill Johnson's* involved the meaning of the National Labor Relations Act (NLRA), the decision nevertheless applies directly in the antitrust context because the Court drew on its understanding of the Sherman Act in interpreting the NLRA.¹³ At the outset of its analysis, the Court observed that *California Motor Transport* had narrowly construed the Sherman Act in light of the "right of access to the courts" and stated that "[w]e should be sensitive to these First Amendment values in construing the NLRA in the present context." 461 U.S. at 741. After determining—on the basis of authorities discussing the application of the Sherman Act in the litigation context (*id.* at 743 & n.10)—that these First Amendment considerations did not extend to frivolous claims, the Court imported into the labor context the standard applicable under the antitrust laws:

Considerations analogous to these led us in the antitrust context to adopt the "mere sham" exception in *California Motor Transport* * * *. We should follow a similar course under the NLRA. * * * Therefore, we hold that it is an enjoined unfair labor practice to prosecute a *baseless* lawsuit with the intent of retaliating against an employee * * *.

Id. at 744 (emphasis added). Because *Bill Johnson's* borrowed its requirement of an objective standard from

¹³ In the first of a series of profound misstatements of the holding of *Bill Johnson's*, petitioners contend that this Court held "that a citizen's First Amendment right of access bars the NLRB from enjoining state court suits that are not legally baseless." Pet. Br. 19. The Court held nothing of the kind. *Bill Johnson's*, like *Noerr*, rests on *statutory interpretation* influenced by constitutional considerations. See 461 U.S. at 741 ("[w]e should be sensitive to these First Amendment values in *construing the NLRA* in the present context") (emphasis added); *id.* at 743 ("the Board's interpretation of the Act is untenable"); *id.* at 751-752 (Brennan, J., concurring) ("I do not suggest that a constitutional issue surfaces directly in this case. But * * * [i]n construing how far the Act goes * * * we have often sought guidance from basic constitutional norms * * *").

the antitrust setting, there can be no doubt that the identical rule applies to claims under the antitrust laws. Proof that the lawsuit was objectively unreasonable is an indispensable element of the sham standard.¹⁴

Even if *Bill Johnson's* were disregarded, and the policy considerations underlying the *Noerr* doctrine evaluated afresh, the conclusion would be the same. All relevant considerations overwhelmingly favor applying an objective test to claims of sham litigation.

a. *Constitutional considerations.* The *Noerr* doctrine protects interests of a constitutional magnitude. The right to resolution of private disputes by an impartial tribunal is "among the most precious of the liberties safeguarded by the Bill of Rights." *United Mine Workers, District 12 v. Illinois State Bar Ass'n*, 389 U.S. 217, 222 (1967). See also *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1413 (9th Cir. 1984) (Kennedy, J.) ("[t]he fundamental right of petition to the courts lies at the center of a system designed to invite the resolution of private grievances and claims by an impartial tribunal").

¹⁴ Confronted with *Bill Johnson's* and the strong support it lends to the holding below, petitioners have tried two different tactics. Originally, they argued that "*Bill Johnson's* cannot be imported wholesale into an antitrust setting." Pet. 14. Now abandoning that approach—as they must in light of the grounding of *Bill Johnson's* in this Court's antitrust decisions—petitioners tacitly acknowledge the relevance of *Bill Johnson's* (see Pet. Br. 18-19, 31) but then distort its holding. The Court did not hold that "[d]etermining the impropriety of a suit was * * * a question of fact, rather than law," as petitioners claim (Pet. Br. 19). Rather, the Court emphasized the importance of affording the *plaintiff in the litigation alleged to be a sham* (the antitrust defendant) its right to a jury trial on contested questions of fact. 461 U.S. at 745. The Court did not even remotely suggest the alarming proposition for which petitioners contend—that whether the original lawsuit was a "mere sham" is an issue for the trier of fact (generally, a jury) in every antitrust case, no matter how well grounded the underlying lawsuit. See Pet. Br. 17, 27, 30-31.

The Court need not determine here whether the First Amendment *requires* that a party seeking to impose liability for the filing of a lawsuit satisfy some objective standard. The question is whether such a standard is necessary to fulfill *Noerr's* purpose of giving petitioning activity a "wide berth" to avoid any potential conflict with the Constitution. *Allied Tube*, 464 U.S. at 504.

In other First Amendment contexts, a standard turning solely on subjective motivation would be unthinkable—and clearly unconstitutional.¹⁵ Speech of any kind, for example, may not result in tort liability solely upon proof that the speaker has a malicious motive; a further objective showing of falsity is required. *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 347 (1974); see also *Cox Broadcasting Corp. v. Cohn*, 420 U.S. 469, 499 (1975) (Powell, J., concurring) ("constitutional necessity of recognizing a defense of truth [is] implicit in" *Gertz*). A sham standard that permitted liability based solely on proof of improper motive would be constitutionally suspect. Cf. *Hustler Magazine, Inc. v. Falwell*, 485 U.S. 46 (1988); *Garrison v. Louisiana*, 379 U.S. 64, 72-73 (1964).

Even if an entirely subjective standard were not objectionable on the ground that it directly burdened core conduct protected by the First Amendment, such a test would be constitutionally problematic because it would chill such conduct. The Court has consistently recognized that there must be "breathing space" around the borders of a protected right (*NAACP v. Button*, 371 U.S. 415, 433 (1963)), or the threat of liability will deter constitutionally protected conduct by forcing the careful citizen to "'steer far wider of the unlawful zone.'" *New York Times Co. v. Sullivan*, 376 U.S. 254, 279 (1964) (quoting *Speiser v. Randall*, 357 U.S. 513, 526 (1958)). It has for that reason held, for example, that the Free Speech

¹⁵ Cf. *Scott v. United States*, 436 U.S. 128, 136 (1978) (in the Fourth Amendment context "[s]ubjective intent alone * * * does not make otherwise lawful conduct illegal or unconstitutional").

Clause reaches beyond directly protected conduct—truthful speech—to bar liability for the making of even a false statement without fault. See *Gertz*, 418 U.S. at 340-341. Cf. *Bill Johnson's*, 461 U.S. at 741 (construing NLRA narrowly to avoid chilling protected conduct).

Moreover, the prospect of incurring damages that go "further than compensation for actual injury" is likely to have an enhanced chilling effect; the Court has for that reason held that the Constitution requires heightened protection against the imposition of such liability for constitutionally protected conduct. *Gertz*, 418 U.S. at 349 (punitive damages). Application of the Sherman Act in the area of constitutionally protected activity triggers this concern because antitrust plaintiffs may win treble damages and attorneys' fees. Cf. Baumol & Ordover, *Use of Antitrust to Subvert Competition*, 28 J.L. & Econ. 247, 252-254, 263-265 (1985); Easterbrook, *The Limits of Antitrust*, 63 Tex. L. Rev. 1, 33-34 (1984).¹⁶ The Sherman Act's extraordinary remedies thus carry with them the need for careful judicial circumscription of the conduct proscribed by the statute. See Baumol & Ordover, *supra*, 28 J.L. & Econ. at 255-256.

Petitioners' wholly subjective standard would dramatically increase the chill on legitimate suits by making it impossible for prospective plaintiffs to determine in advance whether the filing of a particular claim could give rise to the burdens of defending, and even losing, an antitrust claim. A party whose motive was wholly legitimate, and who therefore would in theory be protected under an intent standard, would still have to take into account the possibility of an antitrust claim, with its attendant discovery and possible erroneous imposition of supra-compensatory liability, in deciding whether to file its lawsuit in the first place. Certainly there could be

¹⁶ For that reason, overly broad application of the Sherman Act would chill legitimate litigation far more than could the traditional tort remedies (abuse of process and malicious prosecution) aimed at misuse of the judicial process.

no guarantee that an antitrust claim could be defeated on the merits. The outcome would be impossible to predict because the entire case would turn on a jury's assessment of motive, an enterprise that is "hazardous and of doubtful utility in most cases." P. Areeda & H. Hovenkamp, *supra*, ¶ 203.1c, at 24.

Although the party contemplating filing the initial lawsuit would be unable to determine whether he might ultimately be subjected to treble-damages liability for the filing of his lawsuit, one consequence of an antitrust claim would be all too easy to predict: that party would be subjected to extensive discovery. Under petitioners' approach, discovery must be permitted in every case in which a claim of sham is asserted and, as this case well illustrates, that discovery may be extremely burdensome. Petitioners sought to impose on respondents the cost of producing extremely broad categories of documents, including essentially every document in respondents' possession relating even tangentially to the sale or rental of videodiscs and videocassettes. See notes 4 & 5, *supra*.¹⁷ In their brief before this Court (at 29-31), petitioners even suggest that they also are entitled to discovery on the antitrust allegations held insufficient by the Ninth Circuit (even though they have not sought review of the court of appeals' adverse determination) because that information might somehow shed light on respondents'

¹⁷ Petitioners' document requests would have required respondents to produce hundreds of thousands of documents with no relationship at all to petitioners' antitrust claim. For example, the requests encompass each and every license agreement with a video retailer or rental business located anywhere in the world, as well as all of the documentation underlying those agreements. In addition, production and distribution agreements relating to hundreds of motion pictures; labor agreements; and contracts with individual actors and other artists that contain profit participation clauses would have been included, because these agreements frequently address the allocation of royalties for video sales and rentals. Similarly, all video licenses to libraries, schools, airplanes, and ships were encompassed within petitioners' broad demand. See generally 9/18/85 Tr. 14-15.

subjective motivation. Any party contemplating resort to the judicial process to vindicate his rights would be deterred from filing suit if his adversary could, simply by filing a counterclaim, impose burdens of this magnitude.

In sum, imposing liability on the basis of subjective motive alone is suspect under the First Amendment. The difficult constitutional issues presented by such an approach provide more than sufficient grounds for requiring proof of objective unreasonableness as a prerequisite for holding a lawsuit to be a "mere sham."¹⁸

b. *The difficulty of assessing intent.* An entirely subjective standard is flawed for another reason beyond its tendency to chill the filing of legitimate lawsuits. That standard is unacceptable because it would not focus antitrust liability on the class of lawsuits that are "mere sham[s]."

To begin with, the Court in *Noerr* distinguished "business activity" from "political activity" (365 U.S. at 137).

¹⁸ Petitioners appear to assert (Br. 15) that First Amendment concerns need not be considered in fashioning the appropriate standard for identifying a "mere sham" because, "[i]f a party's subjective intent is indifferent to the government outcome * * *, the party itself has rendered the Constitution and its protections irrelevant." That simplistic assertion ignores the consistent thrust of this Court's First Amendment jurisprudence. It is settled, for example, that libelous statements are not directly protected by the Free Speech Clause (see *Bose Corp. v. Consumers Union of United States, Inc.*, 446 U.S. 485, 504 (1984)), but this Court has repeatedly held that—in order to prevent the chilling of nonlibelous speech—the Constitution prescribes the standard for distinguishing between protected and unprotected speech. *E.g., id.* at 505 (de novo review of trial court determination); *New York Times Co. v. Sullivan*, *supra* (proof of "actual malice" required to recover damages for libel of public figure). So too here, constitutional concerns must be considered in crafting the sham standard. That is especially true because the Court is not simply interpreting the First Amendment, but rather construing the Sherman Act so as to steer clear of imposing, even tangentially, a significant burden on constitutional interests.

To say that what appears to be a lawsuit is not really a lawsuit at all, but is instead mere "business activity," requires more than a showing of bad motive. A suit is nothing more than business activity—in no sense an effort to obtain government action—only when there also is proof that the suit is objectively different from a "real" lawsuit, because, for example, it lacks any reasonable basis or involves fraud. Petitioners' contention that a successful lawsuit may be equated with "business activity" would penalize the prosecution of legitimate claims. That is precisely what *Noerr, California Motor Transport*, and *Bill Johnson's* sought to prevent.

Moreover, a pure subjective motive standard would be ineffective in practice even if it could somehow be justified as a matter of legal theory. Courts and commentators have repeatedly recognized that wholly intent-based standards are extremely unreliable means of identifying situations where the imposition of antitrust sanctions is appropriate. A monopolization claim, for example, must be based on an "objectively anticompetitive act," because proof of "bad intent" provides little assistance in distinguishing anticompetitive behavior from procompetitive conduct. *Olympia Equipment Leasing Co. v. Western Union Telegraph*, 797 F.2d 370, 379-380 (7th Cir. 1986), cert. denied, 480 U.S. 934 (1987); see also 3 P. Areeda & D. Turner, *Antitrust Law* ¶ 626 (1978); *Rural Telephone Service Co. v. Feist Publications, Inc.*, 957 F.2d 765, 769 (10th Cir. 1992), petition for cert. filed, No. 91-1872 (May 18, 1992); *Ocean State Physicians Health Plan v. Blue Cross & Blue Shield*, 883 F.2d 1101, 1113 (1st Cir. 1989), cert. denied, 494 U.S. 1027 (1990).

In the context of predatory pricing claims, most courts have used objective standards—evidence of market power and of the relationship between prices and costs—rather than relying on evidence of intent. *A.A. Poultry Farms, Inc. v. Rose Acre Farms, Inc.*, 881 F.2d 1396, 1401-1402 (7th Cir. 1989), cert. denied, 494 U.S. 1019 (1990); *Barry*

Wright Corp. v. ITT Grinnell Corp., 724 F.2d 227, 232 (1st Cir. 1983) (Breyer, J.). The *Barry Wright* court, for example, recognized that its standard would bar liability for some strategic pricing behavior that "economists have identified * * * as potentially harmful" (724 F.2d at 233), but concluded that an objective approach was appropriate because a rule permitting liability in such circumstances would sweep in procompetitive pricing as well. "Rules that seek to embody every economic complexity and qualification may well, through the vagaries of administration, prove counter-productive, undercutting the very economic ends they seek to serve." *Id.* at 234; see also *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 594 (1986) ("mistaken inferences in cases such as this one are especially costly, because they chill the very conduct the antitrust laws are designed to protect").

Here too, the risk of an erroneous finding of liability—and the consequent imposition of treble damages for suits not even brought for an improper purpose, much less violative of the antitrust laws—would be extremely high.¹⁹ A jury would be required to distinguish permissible intent (the desire to injure rivals through the outcome of the litigation) from unlawful motive (injuring rivals through the litigation process). These two purposes closely resemble one another, and it is likely to be difficult to decide on which side of the line a case falls on the basis of what will almost certainly be circumstantial evidence.

¹⁹ Thus, as one commentator has noted, lower courts eager to catch every possible "bad" lawsuit have opened the way to condemnation of *Noerr*-protected behavior. Klein, *Strategic Sham Litigation: Economic Incentives in the Context of the Case Law*, 6 Int'l Rev. L. & Econ. 241, 250 (1986) ("[t]he case law on predatory litigation has been preoccupied with mopping up false negatives, while simultaneously cracking open the windows and doors for false positives").

In addition, many cases will involve evidence of mixed motivation: although victory in the lawsuit might have been the plaintiff's primary goal, there may well be evidence that the plaintiff was not overly concerned about the expense that the litigation process imposed on its rival. Cf. *Noerr*, 365 U.S. at 143 (referring to such mixed motivation). Subjective intent is an inherently unreliable legal standard precisely because it "is often a jumble of mixed impulses, even if we succeed in identifying the particular human being(s) whose intention is relevant." P. Areeda & H. Hovenkamp, *supra*, ¶ 203.1c, at 24; see also Balmer, *Sham Litigation and the Anti-trust Laws*, 29 Buffalo L. Rev. 39, 68 (1980) (an exclusively subjective standard will "involve courts in confusing questions of a plaintiff's motive for bringing a particular suit").²⁰

It is unrealistic to expect (cf. *City of Columbia*, 111 S. Ct. at 1351 n.5) that "citizens of the vicinage will be able to tell the difference between" well-grounded lawsuits pursued with enough indifference to their outcome to call them "mere shams" and well-grounded lawsuits pursued with enough genuine desire to succeed to give them protection. But petitioners contend in this Court for a regime of law that requires just that. Cf. *Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752, 763 (1984)

²⁰ The difficulty in "identifying the particular human being(s) whose intention is relevant" in a corporate setting would create even more problems. If one executive vice-president wanted to win the lawsuit but another wanted to bleed the rival by imposing legal expenses, whose intent controls? Does the intent of a company's president matter more than that of its general counsel, even if the president merely rubber-stamps the general counsel's recommendations regarding the initiation of litigation? In cases involving multiple, similarly situated plaintiffs, each of whose intent is clear, a purely subjective focus could have even stranger consequences. If one plaintiff genuinely wants to win but the other plaintiff asserting the same legal rights wants to harm a rival, has one but not the other committed an antitrust violation by engaging in identical conduct?

(rejecting proposed antitrust standard because it "disregarded[ed] th[e] danger" of "deter[ring] or penaliz[ing] perfectly legitimate conduct").

This Court in *Allied Tube* criticized a proposed explication of the sham exception on the ground that it provided "no real 'intelligible guidance' to courts or litigants." 486 U.S. at 508 n.10. In *City of Columbia*, the Court rejected as "impracticable" a proposed conspiracy exception to *Noerr*. 111 S. Ct. at 1355. Petitioners' standard based entirely on subjective motive suffers from the flaws identified in those cases and should meet the same fate.

c. *Discovery abuses*. An entirely intent-based standard would also "complicate[] litigation. Lawyers rummage through business records seeking to discover tidbits that will sound impressive (or aggressive) when read to a jury. Traipsing through the warehouses of business in search of misleading evidence both increases the costs of litigation and reduces the accuracy of decisions." A.A. *Poultry Farms*, 881 F.2d at 1402. See also *Harlow v. Fitzgerald*, 457 U.S. 800, 817 (1982) ("[j]udicial inquiry into subjective motivation . . . may entail broad-ranging discovery"); *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 741 (1975). Every plaintiff would argue, as petitioners do here, that it is entitled to discovery in order to obtain support for its contention.

That discovery will not be narrowly focused, but rather will extend as broadly as possible. That is certainly what petitioners attempted to do. See notes 4 & 5, *supra*. Indeed, their document demands were nothing short of astounding, seeking broad categories of documents having nothing to do with the copyright infringement dispute, including records relating to activities outside the United States. The district court several times recognized that petitioners' demands were "much too broad." 3/24/86 Tr. 4; see also 9/18/85 Tr. 16; pages 7, 28-29, *supra*. Petitioners' position thus threatens—purportedly in the name of deterring and punishing unjustified and

costly litigation—to require every antitrust counterclaim to endure the exact kind of protracted and unnecessary proceedings that this Court condemned in *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, *supra*.

Even when the discovery requests are more focused than those propounded in this case, they are likely to impose significant burdens on antitrust defendants confronted with claims of sham litigation. Much of the documentary evidence assessing the strength of the underlying lawsuit will be covered by the attorney-client privilege and attorney work product doctrine. The antitrust defendant will be required to choose between maintaining the confidentiality of its privileged documents and defending against the antitrust claim. One court has indicated that that option may not even be available to antitrust defendants because, upon a *prima facie* showing under that court's subjective standard for determining whether litigation is a "mere sham," privileged material can be discovered under the crime-fraud exception to the attorney-client privilege. *In re Burlington Northern, Inc.*, 822 F.2d 518, 525, 533-534 (5th Cir. 1987), cert. denied, 484 U.S. 1007 (1988). That conclusion—although obviously wrong—shows the dangers inherent in the path down which petitioners invite this Court to go.

The antitrust defendant's inability to obtain dismissal without first undergoing discovery also would have the perverse effect of encouraging baseless antitrust claims. *Lupia v. Stella D'Oro Biscuit Co.*, 586 F.2d 1163, 1167 (7th Cir. 1978) ("the statutory private antitrust remedy of treble damages affords a special temptation for the institution of vexatious litigation"), cert. denied, 440 U.S. 982 (1979). A company sued by a competitor would have an incentive to respond immediately with an antitrust counterclaim asserting that the initial claim was a sham. Possibly, the threat of treble damages and intrusive discovery would coerce the plaintiff in the initial action into withdrawing its claim or agreeing to an unfair settlement. The defendant at least would be able to obtain

broad discovery, possibly including privileged materials assessing the very legal claim at issue in the initial suit. See Klein, *Strategic Sham Litigation: Economic Incentives in the Context of the Case Law*, 6 Int'l Rev. L. & Econ. 241, 249 (1986) ("[a]s Sherman Act suits claiming sham litigation become easier to win, an incentive is created for the targets of legitimate suits to claim that such suits are sham. One might call these sham-sham suits. This will tend to chill the filing of legitimate suits against competitors, and effectively deny them access to the courts").²¹

This Court has in other contexts fashioned substantive legal rules in order to prevent such abuses. In *Blue Chip Stamps*, a case involving the scope of the private action implied under Section 10(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78j(b), the Court observed that "[t]he prospect of extensive deposition of the defendant's officers and associates and the concomitant opportunity for extensive discovery of business documents, is a common occurrence in this and similar types of litigation." 421 U.S. at 741. The liberal discovery provisions of the

²¹ The antitrust counterclaims in this case are illustrative of these concerns. Here petitioners alleged that the copyright infringement suit was part of a conspiracy among respondents to monopolize and restrain the retail sale and rental of videodiscs. J.A. 38. The precise factual and legal premise for such an assertion, however, is elusive at best. Despite petitioners' vague and unsupported suggestions to the contrary (*e.g.*, Pet. Br. 4 n.3, 5), respondents do not compete in either the video or the video equipment retail market. Nor was there any allegation below that respondents had conspired with Spectradyne, Inc.—which is simply one of the dozens of entities licensed to transmit or exhibit respondents' copyrighted films—to restrain or eliminate competition in videodisc sales or rentals. Hence, on its face, the original lawsuit by respondents as copyright owners to enjoin allegedly unlicensed performances of their films by an entity with whom they did not compete is far removed from the type of conduct the Court had in mind when it described the "mere sham" exception as "nothing more than an attempt to interfere directly with the business relationships of a competitor." *Noerr*, 365 U.S. at 144.

Federal Rules of Civil Procedure may, the Court recognized,

permit[] a plaintiff with a largely groundless claim to simply take up the time of a number of other people, with the right to do so representing an *in terrorem* increment of the settlement value, rather than a reasonably founded hope that the process will reveal relevant evidence.

Ibid. The Court declined to expand the class of plaintiffs entitled to sue under Section 10(b) because to do so "would appear to encourage the least appealing aspect of the use of the discovery rules." *Ibid.* Here, rejection of petitioners' entirely subjective standard is warranted in order to prevent the same harmful result.

d. *Common law analogies.* Requiring a showing that the challenged lawsuit was objectively reasonable also is consistent with common law doctrine that addresses some of the same concerns as the "mere sham" exception to *Noerr*. A defendant can be liable for malicious prosecution only if the underlying lawsuit was brought without probable cause; proof that the lawsuit was brought with an improper motive is not sufficient. *Dinsman v. Wilkes*, 53 U.S. (12 How.) 389, 401-402 (1851); *Restatement (Second) of Torts* § 674(a) (1977); W.P. Keeton, D. Dobbs, R. Keeton & D. Owen, *Prosser and Keeton on the Law of Torts* § 119, at 871 (5th ed. 1984) [hereinafter *Prosser and Keeton*]; *id.* § 120, at 893; Note, *Limiting the Antitrust Immunity for Concerted Attempts to Influence Courts and Adjudicatory Agencies: Analogies to Malicious Prosecution and Abuse of Process*, 86 Harv. L. Rev. 715, 727-728 (1973).²²

²² Justice Kennedy's concurring opinion in *Wyatt v. Cole*, *supra*, recognizes the requirement of proof of lack of probable cause, but goes on to state that, in an "exceptional case," evidence that the tort defendant did not believe he had probable cause to institute the initial lawsuit—even though a reasonable person *would* have believed

The abuse-of-process tort also has traditionally required proof of objective misconduct. The elements of the tort are "first, an ulterior purpose, and second, a wilful act in the use of the process not proper in the regular conduct of the proceeding." *Prosser and Keeton* § 121, at 898. As one commentator has explained, the plaintiff must prove "that the defendant instituted the litigation with the purpose of achieving a 'collateral' objective, and that he committed a specific act—other than those acts incidental to the normal use of the court or agency—

the suit was justified—could establish the absence of probable cause. 60 U.S.L.W. at 4387. See also *id.* at 4388 n.2 (Rehnquist, C.J., dissenting) ("relying on the subjective belief * * * is clearly exceptional. I see no reason to base our decision * * * on the exceptional common law case") (citation omitted). That does not weaken the support for an objective standard in the *Noerr* context.

To begin with, as Justice Kennedy observed, the rule permitting proof of lack of probable cause on the basis of the tort defendant's irrational belief was and is applied only rarely; it also has been rejected by some courts, including this Court, and criticized by commentators. See *Director General v. Kastenbaum*, 263 U.S. 25, 27-28 (1923) (discussing proof of probable cause in context of wrongful arrest tort; "[t]he question is not whether [the defendant] thought the facts to constitute probable cause, but whether the court thinks they did"); *Sheldon Appel Co. v. Albert & Oliker*, 765 P.2d 498 (Cal. 1989) (rejecting subjective approach); *Prosser and Keeton* § 119, at 877 (disagreeing with this principle on ground it is "inconsistent with the traditional test of probable cause"); Dobbs, *Belief and Doubt in Malicious Prosecution and Libel*, 21 Ariz. L. Rev. 607 (1979).

Moreover, there is no reason that tort law should be imported wholesale into the Sherman Act, which "does not purport to afford remedies for all torts committed by or against persons engaged in interstate commerce." *Hunt v. Crumboch*, 325 U.S. 821, 826 (1945). The considerations that enter into this Court's construction of the Sherman Act are quite different from those that led a few 19th-century expositors of the common law to advance the controversial proposition that malice could prove the absence of probable cause. The common law, for example, involves neither the automatic trebling of damages and awarding of attorneys' fees nor the massive discovery associated with antitrust cases.

directed at attaining that objective." Note, *supra*, 86 Harv. L. Rev. at 732. The requirement of "proof of specific conduct taken to achieve [the impermissible] objective limits the dangers of inquiry into * * * subjective purpose." *Ibid.* (footnote omitted). In this context as well, therefore, "bad purpose alone is insufficient." *Prosser and Keeton* § 121, at 898.²³

e. *The inadequacy of petitioners' justifications.* Petitioners never even attempt to demonstrate that their wholly subjective standard accords with the policies underlying *Noerr*. The bulk of their argument consists of unsupported quotations from opinions of courts of appeals purportedly agreeing with their position. See, e.g., Pet. Br. 21-22, 23-25, 28. The few substantive assertions that petitioners do make are wholly devoid of merit.

Petitioners first observe (Br. 22-23) that it is possible for a meritorious lawsuit to be brought for the purpose of harming a competitor. The question here, however, is whether it is appropriate to impose treble-damages liability for the filing of an objectively reasonable lawsuit in view of the resulting heavy burden on claims brought for legitimate reasons. The Court in *Bill Johnson's* answered that question by reference to the very First Amendment interests implicated here. It concluded that, even though an objectively reasonable lawsuit might be brought for the purpose of retaliation, the Labor Board should not be permitted to enjoin the lawsuit unless it was objectively unreasonable. Petitioners have not supplied a single reason

²³ *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 471 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983), indicates that bad purpose alone is sufficient to establish an abuse of process. The court relied on *Prosser*, which—as the above text indicates—actually states the contrary proposition, and a state court decision that also holds to the contrary. *Holiday Magic, Inc. v. Scott*, 282 N.E.2d 452, 455 (Ill. App. Ct. 1972) (abuse of process requires proof of "[s]ome act in the use of the legal process not proper in the regular prosecution of the proceedings").

why a different result should obtain under the antitrust laws.²⁴

Next, petitioners quote (Br. 25) the Fifth Circuit's statement in *In re Burlington Northern, Inc.*, 822 F.2d at 529 n.8, to the effect that "the difficulty of inquiring into intent" does not justify an objective standard. That court did not support its conclusory assertion with any analysis and did not even consider the chilling effect on legitimate petitioning activity that would result from such a standard. As we have shown, a wholly subjective standard is difficult to apply and, moreover, chills legitimate petitioning activity.²⁵

Petitioners also rely (Br. 26) on a passage from *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 471 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983), analogizing a sham claim to an abuse-of-process suit and stating that, "[i]f abuse of process is not constitutionally protected, no more should litigation that has an improper anticompetitive purpose be protected, even though the plaintiff has a colorable claim." There are a number of flaws in that analogy. First, as we have discussed (at 37-38), abuse of process *does* have an objective element; prosecuting a lawsuit with an improper motive is not enough to give rise to liability.²⁶ Second, as the foregoing

²⁴ Moreover, as we discuss below (at pages 44-45), an empirical analysis of the reported decisions addressing claims of sham litigation reveals that no court has ever held an objectively reasonable lawsuit to be a sham. The sham claims hypothesized by petitioners as a matter of economic theory simply have not been found to exist in practice.

²⁵ Petitioners further suggest (Br. 28) that the lower courts have not had difficulty applying a subjective standard. But even the *Burlington Northern* court, on whose decision petitioners place great reliance, characterized the determination as "a difficult task." 822 F.2d at 528.

²⁶ In addition, the analogy to abuse of process ignores the fact that treble damages and attorneys' fees are not an automatic consequence of tort liability.

quotation makes clear, the *Grip-Pak* court proceeded on the erroneous assumption that *Noerr* protection extends only to constitutionally protected activity. In fact, *Noerr* is a statutory construction case (see pages 18-19, *supra*), in which the Court did *not* make the doctrine coextensive with the protections of the First Amendment. Third, *Grip-Pak* antedated this Court's decision in *Bill Johnson's*, which provided important guidance concerning the meaning of *Noerr* in the litigation context. The *Grip-Pak* court, for example, did not even consider the chilling effect on legitimate claims of an entirely subjective standard. For these reasons, *Grip-Pak*'s discussion of the appropriate dimension of the sham inquiry is neither persuasive nor an accurate reflection of this Court's *Noerr* jurisprudence. See also *Handler & De Sevo*, *supra*, 6 Cardozo L. Rev. at 36 ("it is difficult to conceive of an opinion more at war with *Noerr* than *Grip-Pak*").

Finally, petitioners criticize (Br. 27) a *purely* objective standard on the ground that it would penalize suits based on innovative legal theories. That argument is a red herring. We contend, and the court of appeals held, that proof of *both* objective unreasonableness *and* improper subjective motive is required. Innovative legal claims need not be unreasonable. But even if an innovative legal theory were held unreasonable, the antitrust defendant would be liable only if the plaintiff also prevailed on the motive prong of the sham standard. The two elements of the test work together to protect against erroneous imposition of liability. The wholly subjective standard proposed by petitioners, by contrast, provides no protection whatever against erroneous treble-damages awards because it turns solely on an inherently unreliable inquiry into intent.

In sum, there are a number of considerations weighing strongly in favor of an objective component of the "mere sham" test and none weighing against it. This Court should uphold the court of appeals' determination

that an antitrust plaintiff asserting that a lawsuit is a sham must show that the underlying lawsuit was objectively unreasonable as well as that the suit was brought for improper motive.

C. Respondents' Copyright Suit Was Not A "Mere Sham" Because The Claim Was Not Baseless.

Petitioners deny that the "mere sham" standard contains any objective component; they have made no effort to argue to this Court that the court of appeals, although properly endorsing *an* objective component, erred by labeling that component as "baselessness." Nor could they. The court of appeals' test properly reconciles the relevant interests.²⁷

Of course, the court of appeals did not hold that the only way an antitrust plaintiff may satisfy the objective component of the sham inquiry is to prove that the underlying claim was not reasonably justified. That court recognized that serious misrepresentations during the course of litigation also would be sufficient to establish objective unreasonableness, but noted that petitioners had not alleged such misconduct. Pet. App. 11a. Petitioners also do not argue that the present case involves any of the other objective misconduct cited in *California Motor Transport*—flagrant abuses in the litigation process; a pattern of baseless or unsuccessful suits directed against petitioners; or misconduct amounting to a "denial of access" to the judicial forum. See page 21, *supra*. When none of these other objective factors is present, we submit, the underlying claim can be a sham only if it lacked a reasonable basis.

²⁷ The court of appeals correctly observed (Pet. App. 15a-16a) that determining whether the underlying suit was baseless is an issue of law for the court. Cf. *Stewart v. Sonneborn*, 98 U.S. 187, 194 (1879) (in a malicious prosecution action, whether particular facts amount to probable cause is a question for the court; the jury's role is limited to resolving any disputes about the underlying facts).

Because “[m]any entirely reasonable claims or defenses are lost” (P. Areeda & H. Hovenkamp, *supra*, ¶ 203.1e, at 30) and “one must not penalize the assertion of novel legal claims” (*id.* at 31), permitting a reasonably grounded but unsuccessful suit to serve as the basis for a sham claim would create an intolerable chill on legitimate claims. The court below properly observed: “Such a holding would erode the first amendment right to petition * * * by imposing the risk of treble damages for initiating a suit based on a well-founded, but untested, legal theory.” Pet. App. 14a-15a (citation omitted); accord Balmer, *supra*, 29 Buffalo L. Rev. at 61 (“in order to err on the side of protecting first amendment values, the standard for challenging sham suits as antitrust violations should be relatively high”).

When the suit in question involves no litigation misconduct, there is no objective benchmark that provides a satisfactory alternative to the reasonableness test. Allowing every *unsuccessful* lawsuit to be subject to an antitrust counterclaim would chill the bringing of entirely legitimate lawsuits and could make the “mere sham” exception swallow the *Noerr* rule.²⁸ Trying to

²⁸ The Court in *Bill Johnson's* indicated that, where the initial lawsuit is unsuccessful, the NLRB may find an unfair labor practice if the lawsuit was instituted for retaliatory purposes. 461 U.S. at 747. That situation is entirely different from the present case because a private antitrust claim would pose a far greater threat to the plaintiff in the original action—and therefore would have a much more significant chilling effect—than the unfair labor practice proceeding at issue in *Bill Johnson's*. First, the Labor Board is a government enforcement agency, not a private plaintiff. Because the NLRB exercises prosecutorial discretion, but private plaintiffs do not, there is considerably less threat of meritless unfair labor practice claims than of meritless private antitrust claims based on an initial lawsuit. Second, the Labor Board can impose only equitable remedies such as a cease and desist order or, in some circumstances, backpay or reimbursement of legal expenses. 29 U.S.C. § 160. The much heavier burden under the antitrust laws—mandatory treble damages and attorneys’ fees—will inevitably produce a much greater

assess the costs and benefits of particular litigation likewise would mire the courts (and factfinders) in subjectivity and would deter legitimate initial lawsuits while inviting meretricious counterclaims.²⁹

For these reasons, commentators have concluded that the reasonable basis test is the appropriate objective component of the sham standard in a case such as this one. P. Areeda & H. Hovenkamp, *supra*, ¶ 203.1e; Handler & De Sevo, *supra*, 6 Cardozo L. Rev. at 30-31, 40, 52-53, 55; Balmer, *supra*, 29 Buffalo L. Rev. at 56, 68; see also R. Bork, *supra*, at 358-359 (describing unprotected sham activity as either making “deliberate misrepresentations to * * * tribunals” or pressing “baseless claims for the ulterior purpose of wreaking economic injury upon a competitor”).

In at least one other context involving behavior in the face of legal uncertainty, this Court has recognized that

chilling effect. See pages 26-29, *supra*. In view of the greater chilling effect posed by the threat of a private antitrust action, stronger protection is required in order to avoid deterring the prosecution of legitimate claims. The Court should therefore look to the reasonableness rule it has applied to alleviate the chilling effect of other private damages actions. See page 44, *infra*.

²⁹ One court has suggested that the sham determination should depend on whether the costs of the litigation to the antitrust defendant outweighed the benefits that would be gained by prevailing in court, discounted by the probability of success. *Grip-Pak*, 694 F.2d at 472. But that test is not objective. The antitrust plaintiff would surely demand broad discovery relating to the antitrust defendant’s assessment of the costs, benefits, and probability of success of the underlying suit. And determination of these questions would be as murky an enterprise for a jury as divining a company’s subjective motive. For example, it may be no easy thing to decide what a victory would have been worth. This is especially true when, as in the present case, a party brings potentially precedent-setting litigation involving the impact of new technology on preexisting legal rights. In sum, this test would simply substitute a different unmanageable standard for the subjective test proffered by petitioners. It should be rejected for that reason.

the proper way to avoid chilling desirable conduct, and to avoid litigation-provoking inquiries into subjective intent, is to inquire whether the challenged actions were objectively reasonable in light of the existing state of the law. See *Harlow v. Fitzgerald*, 457 U.S. at 817-819 (government official may be subjected to personal damages liability for official acts that are unconstitutional only if his conduct was objectively unreasonable; reasonableness standard vitiates chilling effect of potential liability so that officials are free to exercise their legitimate authority); cf. *United States v. Leon*, 468 U.S. 897 (1984) (objective reasonableness standard prevents overdeterrence of police behavior governed by uncertain legal standards). And, as we have discussed (at 36), the same rule applies to malicious prosecution claims. The "breathing room" necessary to avoid chilling of meritorious claims can be provided only by a standard that turns on the reasonableness of the underlying suit.

Finally, there is no evidence that a reasonableness standard would alter to any significant degree the ability of truly injured parties to vindicate their rights under the antitrust laws. We have surveyed all of the reported decisions involving the "mere sham" principle that are available on WESTLAW.³⁰ Every one of the comparatively few sham claims that have succeeded involved an underlying action that either was baseless or involved misrepresentations or some other form of flagrant abuse in the litigation process. Although the lower courts vary in what they say *might* constitute sham litigation, no court has in fact made an ultimate finding of sham when the underlying lawsuit was neither baseless nor abusive. A reasonableness standard therefore will not harm antitrust victims; it will simply eliminate unjustified litigation—and the consequent chill on legitimate claims.

³⁰ The search was NOERR "CALIFORNIA MOTOR" & SHAM in the FATR-ALL database.

See Klein, *Predation in the Courts: Legal Versus Economic Analysis in Sham Litigation Cases*, 10 Int'l Rev. L. & Econ. 29, 39 (1990) ("the policy problem, if one exists, is not that consistent economic arguments fail but that economically weak claims appear to win [i.e., survive motions to dismiss] too often").

When all is said and done, it is not proper—as a matter of precedent, policy, or logic—to classify a reasonable lawsuit as a "mere sham." The copyright action here was a reasonable lawsuit. Petitioners conceded as much in the court of appeals. Pet. App. 15a. The court of appeals' determination that the infringement action was not a sham should therefore be affirmed by this Court.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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JUNE 15, 1992

MAY 14 1992

IN THE
Supreme Court of the United States OF THE CLERK
OCTOBER TERM, 1992

PROFESSIONAL REAL ESTATE INVESTORS, INC.,
and KENNETH F. IRWIN,
Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,
EMBASSY PICTURES,
PARAMOUNT PICTURES CORPORATION,
TWENTIETH CENTURY-FOX FILM CORPORATION,
UNIVERSAL CITY STUDIOS, INC.,
WALT DISNEY PRODUCTIONS,
WARNER BROS., INC., and
CBS, INC.,
Respondents.

On Writ Of Certiorari To The United States Court of
Appeals For The Ninth Circuit

JOINT APPENDIX
VOLUME I OF II

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TABLE OF CONTENTS

	J.A. Page
Relevant Docket Entries	1
Complaint, filed April 25, 1983	3
Answer to Complaint by Defendants Professional Real Estate Investors, Inc., dba La Mancha Private Club & Villas and Kenneth F. Irwin, Counterclaim, and Jury Demand, filed Febru- ary 9, 1984	32
Reply to Counterclaim by Plaintiff and Counter- defendant Columbia Pictures Ind., Inc., filed August 24, 1984	50
Reply to Counterclaim by Plaintiff and Counter- defendant Universal City Studios, Inc., filed August 28, 1984	54
Notice of Motion to Compel Plaintiffs and Coun- terdefendants to Produce Documents and for Expenses and Attorneys' Fees; Memorandum in Support; Declaration of Non-compliance, filed August 13, 1985	58
Minute Order: Court grants Defendants' Motion for Summary Judgment; Court allows 10 days for Plaintiffs to object to Proposed Order, filed December 16, 1985	94
Judgment, filed January 22, 1986	95
Notice of Motion and Motion to Compel Counter- defendants to Produce Documents and for Ex- penses and Attorneys' Fees, filed March 3, 1986	97
Stipulation and Order, filed May 24, 1983	99
Stipulation and Order, filed June 29, 1983	101
Stipulation and Order, filed August 2, 1983	103
Stipulation and Order, filed September 22, 1983 ..	105
Stipulation and Order, filed November 28, 1983 ...	107
Stipulation and Order, filed January 3, 1984	109

Stipulation and Order, filed January 26, 1984	111
Stipulation and Order, filed August 24, 1984	113
Joint Report of Early Meeting, filed January 11, 1985	115
Notice of Motion for Sanctions; Memorandum and Declarations in Support, filed August 9, 1985	118
Plaintiffs' Memorandum in Opposition to Defendants' Motion to Compel, filed August 26, 1985	148
Plaintiffs' Memorandum in Opposition to Defendants' Motion for Sanctions, filed August 26, 1985	169
Declarations of Dorothy Wolpert, Joel E. Boxer and Robert J. Rose in Support of Plaintiffs' Memorandum in Opposition to Defendants' Motion to Compel, filed August 26, 1985	175
Defendants' Reply Memo with regard to their Motion for Sanctions, filed August 30, 1985	192
Notice of Motion and Motion for Summary Judgment and Permanent Injunction; Memorandum of Points and Authorities in Support, filed September 30, 1985	215
Defendants' Statement of Genuine Issues of Material Fact in Opposition to Plaintiffs' Motion for Summary Judgment and in Support of Defendants' Cross-Motion, filed October 21, 1985	243
Notice of Defendants' Cross-Motion for Summary Judgment and Memorandum in Opposition to Plaintiffs' Motion for Summary Judgment and in Support of Defendants' Cross-Motion; Proposed Statement of Uncontroverted Facts and Conclusions of Law, filed October 21, 1985 ...	248
Reply Memorandum of Points and Authorities in Support of Plaintiffs' Motion for Summary Judgment and in Opposition to Cross-Motion; Declarations of Stephen A. Kroft, Maren Christensen and Tracy A. Devlin, filed November 12, 1985	283

Statement of Genuine Issues of Material Fact in Opposition to Defendants' Cross-Motion for Summary Judgment, filed November 25, 1985	311
Reply Memorandum of Defendants and Counterclaimants, filed November 25, 1985	313
Second Declaration of Maren Christensen, filed December 9, 1985	333
Reporter's Transcript of Proceedings, filed December 16, 1985	337
Findings of Fact, Conclusions of Law and Order, filed January 14, 1986	357
Notice of Motion and Motion for an Order Staying Proceedings on Counterclaims Pending Resolution of the Appeal, filed February 26, 1986	368
Declaration of Non-Compliance in Support of Motion to Compel Production of Documents, filed March 3, 1986	377
Memorandum of Points and Authorities in Opposition to Defendants' and Counterclaimants' Motion to Compel Production of Documents and for Expenses and Attorneys Fees, and Declaration, filed March 14, 1986	384
Declarations of Maren Christensen, Bernard R. Sorokin and Ben Tenn in Opposition to Defendants' and Counterclaimants' Motion to Compel Production of Documents and for Expenses and Attorneys' Fees, filed March 14, 1986	415
Memorandum in Opposition to Plaintiffs' Motion for a Stay, filed March 14, 1986	426
Reply Memorandum in Support of Motion to Compel Production of Documents and for Expenses and Attorneys' Fees, and Declaration, filed March 18, 1986	441
Minute Order, filed March 24, 1986	489
Notice of Hearing, filed March 3, 1989	491
Minute Order, filed March 22, 1989	493

Minute Order, filed April 6, 1989	495
Request and Order Setting Rule 16 Conference of 4/17/89, filed April 6, 1989	497
Minute Order; Rule 16 Conference Held, filed April 17, 1989	505
Scheduling Order setting Discovery Cutoff of 2/28/ 90; Law Motion Cutoff of 4/15/90, filed April 17, 1989	523
Notice of Taking Depositions of Spectradyne, Inc., filed September 13, 1989	527
Notice of Taking Depositions of Motion Picture As- sociation of America, Inc., filed September 13, 1989	530
Notice of Taking Depositions of RCA Columbia Pic- tures, filed September 13, 1989	532
Notice of Hearing on Plaintiffs' Motion for Sum- mary Judgment, filed September 25, 1989	535
Notice of Lodging of Copy of Hearing Transcript, filed September 27, 1989	537
Spectradyne's Objection to Deposition Subpoena Pursuant to F.R.C.P. 45(d)(1), filed September 29, 1989	539
Stipulation and Order re: Briefing Schedule and Hearing Date for Counter-Defendants' Motion for Summary Judgment, filed October 31, 1989	542
Counterclaimants' Memorandum in Opposition to Counterdefendants' Motion for Summary Judg- ment, filed November 8, 1989	544
Declaration of Kenneth F. Irwin, filed November 13, 1989	566
Declaration of Patrick J. Coyne, filed December 1, 1989	569
Counterclaimants' Statement of Genuine Issues of Material Fact, filed November 13, 1989	572
Reply Memorandum in Support of Plaintiffs' Motion for Summary Judgment, filed December 11, 1989	578

Declaration of James L. Seal, filed December 11, 1989	609
Plaintiffs' Evidentiary Objections to Declaration of Kenneth F. Irwin, filed December 11, 1989 ..	616
Minute Order, filed December 18, 1989	619
Receipt of Reporter Transcript; Reporter Tran- script of Hearing of 12/18/89, filed January 5, 1990	639
Post-Hearing Memorandum in Support of Motion for Summary Judgment, filed January 29, 1990	662
Post-Argument Reply Memorandum in Opposition to Summary Judgment, filed February 12, 1990	671
Memorandum of Decision, filed March 2, 1990	683
Summary Judgment in favor of Plaintiffs on Coun- terclaim, filed March 2, 1990	686
Objections to Summary Judgment Order Proposed by Plaintiffs and Counterdefendants, filed March 16, 1990	689
Amended Summary Judgment in favor of Plaintiffs on Counterclaim; Order, filed April 6, 1990 ..	694
Notice of Entry of Stipulation and Order re: Amended Judgment, filed April 13, 1990	697
Motion to Strike Portions of Appendix to First Cross-Appeal Brief, filed November 8, 1990 ..	698
Memorandum in Opposition to Appellees' Motion to Strike Portions of Appendix to First Cross- Appeal Brief, filed November 19, 1990	704
Reply Memorandum in Support of Motion to Strike, filed November 28, 1990	714
Supplemental Memorandum in Opposition to Motion to Strike, filed December 10, 1990	717

IN THE
Supreme Court of the United States
OCTOBER TERM, 1992

No. 91-1043

PROFESSIONAL REAL ESTATE INVESTORS, INC.,
and KENNETH F. IRWIN,
Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,
EMBASSY PICTURES,
PARAMOUNT PICTURES CORPORATION,
TWENTIETH CENTURY-FOX FILM CORPORATION,
UNIVERSAL CITY STUDIOS, INC.,
WALT DISNEY PRODUCTIONS,
WARNER BROS., INC., and
CBS, INC.,
Respondents.

CONSOLIDATED RELEVANT DOCKET ENTRIES

<u>Date</u>	<u>Title</u>	<u>Page</u>
04/25/83	Complaint	3
02/09/84	Answer to Complaint by Defendants Professional Real Estate Investors, Inc., dba La Mancha Private Club & Villas and Kenneth F. Irwin, Counterclaim and Jury Demand	32

08/24/84 Reply to Counterclaim by Plaintiff and Counterdefendant Columbia Pictures Ind., Inc.	50
08/28/84 Reply to Counterclaim by Plaintiff and Counterdefendant Universal City Studios, Inc.	54
08/13/85 Notice of Motion to Compel Plaintiffs and Counterdefendants to Produce Documents and for Expenses and Attorneys' Fees; Memorandum in Support; Declaration of Non-compliance	58
12/16/85 Minute Order: Court grants Defendants' Motion for Summary Judgment; Court allows 10 days for Plaintiffs to object to Proposed Order	94
01/22/86 Judgment	95
03/03/86 Notice of Motion and Motion to Compel Counterdefendants to Produce Documents and for Expenses and Attorneys' Fees ..	97
03/02/90 Memorandum of Decision of the U.S. District Court for the Central District of California Pet.App. 23a	
04/08/90 Amended Summary Judgment in Favor of Plaintiffs on Counterclaim and Related Counterclaim Pet.App. 20a	
09/24/91 Judgment and Opinion of the U.S. Court of Appeals for the Ninth Circuit Pet.App. 1a	

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Case No: 83 2594

COLUMBIA PICTURES INDUSTRIES, INC., a Delaware corporation; EMBASSY PICTURES, a joint venture; PARAMOUNT PICTURES CORPORATION, a Delaware corporation; TWENTIETH CENTURY-FOX FILM CORPORATION, a Delaware corporation; UNIVERSAL CITY STUDIOS, INC., a Delaware corporation; WALT DISNEY PRODUCTIONS, a California corporation; WARNER BROS. INC., a Delaware corporation; CBS Inc., a New York corporation,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., a California corporation dba MANCHA PRIVATE CLUB AND VILLAS, KENNETH F. IRWIN AND ERLAND KYLLONEN,

Defendants.

FILED

APR 25 1983

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
DEPUTY

COMPLAINT FOR INFRINGEMENT OF COPYRIGHTS

Plaintiffs allege:

INTRODUCTORY ALLEGATIONS

1. This action and each of the seventy-four claims hereof arise under the copyright laws of the United States (Title 17, United States Code). Jurisdiction is conferred upon this Court by 28 U.S.C. §1338(a). Venue lies in this district under 28 U.S.C. §1400(a).

2. Plaintiff Columbia Pictures Industries, Inc. ("plaintiff Columbia") is a corporation duly incorporated under the laws of the State of Delaware.

3. Plaintiff Embassy Pictures ("plaintiff Embassy") is a joint venture between Lear Productions, Inc. and Perenchio Pictures, Inc. organized under the laws of the State of California.

4. Plaintiff Paramount Pictures Corporation ("plaintiff Paramount") is a corporation duly incorporated under the laws of the State of Delaware.

5. Plaintiff Twentieth Century-Fox Film Corporation ("plaintiff Fox") is a corporation duly incorporated under the laws of the State of Delaware.

6. Plaintiff Universal City Studios, Inc. ("plaintiff Universal") is a corporation duly incorporated under the laws of the State of Delaware.

7. Plaintiff Walt Disney Productions ("plaintiff Disney") is a corporation duly incorporated under the laws of the State of Delaware.

8. Plaintiff Warner Bros. Inc. ("plaintiff Warner") is a corporation duly incorporated under the laws of the State of Delaware.

9. Plaintiff CBS Inc. ("plaintiff CBS") is a corporation duly incorporated under the laws of the State of New York.

10. Plaintiffs are informed and believe and, upon such information and belief, allege that at all times material

hereto, defendants Kenneth F. Irwin and Erland Kyllonen, and Professional Real Estate Investors, Inc., a California corporation doing business as La Mancha Private Club and Villas ("La Mancha") at 444 Avenita Caballeros, Palm Springs, California, 92262 were, and now are, residents of Palm Springs, California with their principal place of business in the Central District.

11. Defendants were and are operating La Mancha as a holiday resort open to the public. La Mancha seeks to attract customers from the general public by advertising its facilities, extensively in local and national publications. Several of said advertisements highlight the availability of plaintiffs' copyrighted motion pictures for public performance. Certain customer facilities, such as villas, are equipped with videodisc players and widescreen projection systems. For a fee customers order discs of plaintiffs' copyrighted motion pictures which are publicly performed without authorization or permission from plaintiffs.

12. Each claim asserted herein arose out of the same transaction, occurrence, or series of transactions or occurrences, and there are questions of law and fact common to all plaintiffs which will arise in this action. Accordingly, the convenient administration of justice will be served by the joinder of the claims set forth below, as the likelihood of a multiplicity of actions will be reduced.

13. Plaintiffs are the copyright owners, co-owners or exclusive licensees of exhibition, distribution and other rights to the motion pictures which are the subject of this proceeding, and hold, as owners or assignees or exclusive licensees, the right to prosecute in their own names claims relating to the infringement of copyrights of said motion pictures.

14. Plaintiffs' copyrighted motion pictures are licensed for exhibition at motion picture theatres by means of 35mm prints. Plaintiffs also license their copyrighted motion pictures for public performance to television networks and

stations, pay cable entities, and other entities such as hotels, by means of prints, cassettes or discs. In recent years, advances in electronic technology have led to the production of playback devices by means of which cassettes or discs of motion pictures may be performed on television screens. Plaintiffs have authorized designated affiliates or independent firms to make a limited number of video discs of certain of plaintiffs' copyrighted motion pictures which are sold or licensed. The video discs contain, among other things, copyright notices, and warnings which appear either before or after the motion picture advising the viewer that the film is protected by the copyright laws, that copying the film is illegal, and that exhibition is restricted by law to home use only.

15. Each of the motion pictures whose titles are set forth in Column number 2 (all references to Columns are to Columns in Schedule I annexed hereto and made a part hereof) contain a large amount of material which is wholly original and which is copyrightable subject matter under the laws of the United States.

16. For each claim, on or about the date set forth in Column number 4, the copyright holders as set forth in Column number 3, including predecessors in interest, if any, complied in all respects with Title 17, United States Code, and all other laws governing copyright, and secured the exclusive rights and privileges in and to the copyright of said motion pictures and received from the Register of Copyrights a Certificate of Copyright Registration, identified as set forth in Column number 5.

17. At all times mentioned herein, plaintiffs have been and still are the owners for the United States of, among other things, exclusive rights to distribute and to perform publicly under the copyright laws all of the motion pictures which are the subject of this proceeding, and which are set forth in column 2.

18. Within the three year period prior to the filing of this civil action, defendants did infringe plaintiffs' copyrights by publicly performing and causing to be publicly performed plaintiffs' copyrighted motion pictures on defendants' premises, without a license from plaintiffs, and defendants threaten to continue such infringing public performances after notice from plaintiffs that such performances constitute infringing acts.

19. The wrongful acts of defendants have caused and are causing great injury and damage to plaintiffs, and unless this Court restrains the defendants from the further commission of said acts, plaintiffs will suffer irreparable injury, for which plaintiffs have no adequate remedy at law.

**CLAIMS 1 THROUGH 7
(Plaintiff Columbia Against Defendants
for Copyright Infringement)**

20. Plaintiff Columbia incorporates by this reference the allegations set forth in Paragraphs 1, 2 and 10 through 19 above, as though the same were set forth in full at this point.

21. Plaintiff Columbia is informed and believes, and, based upon such information and belief, alleges that defendants have from time to time within the three years last past acquired possession of videodiscs of feature motion pictures, of which the exclusive rights to distribute and to perform publicly are owned by plaintiff Columbia, and have publicly exhibited such motion pictures.

22. Plaintiff Columbia is informed and believes, and, upon such information and belief, alleges that defendants have infringed plaintiff Columbia's copyrights by publicly performing and causing to be publicly performed, among others, the motion pictures listed on Schedule I at claims 1 through 7, within the three years last past. The video discs of the motion pictures unlawfully performed by

defendants were acquired by them in a manner and from persons unknown to plaintiff Columbia.

23. Plaintiff Columbia has never authorized defendants, by license or otherwise, to publicly perform any of its motion pictures. Defendants' acts, as hereinabove alleged, are an infringement of plaintiff Columbia's copyrights. Plaintiff Columbia has given defendants notice that they are infringing plaintiff's copyrights and demanded that defendants cease and desist their infringing activities. Defendants have refused. Plaintiff Columbia is informed and believes, and, upon such information and belief, alleges that defendants have continued to infringe Columbia's copyrights, and unless temporarily, preliminarily and permanently enjoined by order of this Court will continue to infringe Columbia's copyrights, all to plaintiff Columbia's irreparable injury.

24. Defendants have committed all the aforesaid acts of infringement deliberately and willfully.

25. Each exhibition of Columbia's motion pictures, as well as the threat and offering to continue the same, constitutes a separate claim against defendants under the Copyright Act. Plaintiff Columbia has sustained, and will continue to sustain, substantial injuries, loss and damage to its ownership rights, exclusive distribution rights, and copyrights of said motion pictures, and further has and will sustain damages from the loss of value of the exclusive rights thereunder by reason of defendants' conduct.

CLAIMS 8 THROUGH 15
(Plaintiff Embassy Against Defendants
for Copyright Infringement)

26. Plaintiff Embassy incorporates by this reference the allegations set forth in Paragraphs 1, 3 and 10 though 19 above, as though the same were set forth in full at this point.

27. Plaintiff Embassy is informed and believes, and, based upon such information and belief, alleges that defendants have from time to time within the three years last past acquired possession of videodiscs of feature motion pictures, of which the exclusive rights to distribute and to perform publicly are owned by plaintiff Embassy, and have publicly exhibited such motion pictures.

28. Plaintiff Embassy is informed and believes, and, upon such information and belief, alleges that defendants have infringed plaintiff Embassy's copyrights by publicly performing and causing to be publicly performed, among others, the motion pictures listed on Schedule I at claims 8 through 15, within the three years last past. The video discs of the motion pictures unlawfully performed by defendants were acquired by them in a manner and from persons unknown to plaintiff Embassy.

29. Plaintiff Embassy has never authorized defendants, by license or otherwise, to publicly perform any of its motion pictures. Defendants' acts, as hereinabove alleged, are an infringement of plaintiff Embassy's copyrights. Plaintiff Embassy has given defendants notice that they are infringing plaintiff's copyrights and demanded that defendants cease and desist their infringing activities. Defendants have refused. Plaintiff Embassy is informed and believes, and, upon such information and belief, alleges that defendants have continued to infringe Embassy's copyrights, and unless temporarily, preliminarily and permanently enjoined by order of this Court will continue to infringe Embassy's copyrights, all to plaintiff Embassy's irreparable injury.

30. Defendants have committed all the aforesaid acts of infringement deliberately and willfully.

31. Each exhibition of Embassy's motion pictures, as well as the threat and offering to continue the same, constitutes a separate claim against defendants under the Copyright Act. Plaintiff Embassy has sustained, and will

continue to sustain, substantial injuries, loss and damage to its ownership rights, exclusive distribution rights, and copyrights of said motion pictures, and further has and will sustain damages from the loss of value of the exclusive rights thereunder by reason of defendants' conduct.

CLAIMS 16 THROUGH 42
(Plaintiff Paramount Against Defendants
for Copyright Infringement)

32. Plaintiff Paramount incorporates by this reference the allegations set forth in Paragraphs 1, 4 and 10 through 19 above, as though the same were set forth in full at this point.

33. Plaintiff Paramount is informed and believes, and, based upon such information and belief, alleges that defendants have from time to time within the three years last past acquired possession of videodiscs of feature motion pictures, of which the exclusive rights to distribute and to perform publicly are owned by plaintiff Paramount, and have publicly exhibited such motion pictures.

34. Plaintiff Paramount is informed and believes, and, upon such information and belief, alleges that defendants have infringed plaintiff Paramount's copyrights by publicly performing and causing to be publicly performed, among others, the motion pictures listed on Schedule I at claims 16 through 42, within the three years last past. The video discs of the motion pictures unlawfully performed by defendants were acquired by them in a manner and from persons unknown to plaintiff Paramount.

35. Plaintiff Paramount has never authorized defendants, by license or otherwise, to publicly perform any of its motion pictures. Defendants' acts, as hereinabove alleged, are an infringement of plaintiff Paramount's copyrights. Plaintiff Paramount has given defendants notice that they are infringing plaintiff's copyrights and demanded that defendants cease and desist their infringing activities.

Defendants have refused. Plaintiff Paramount is informed and believes, and, upon such information and belief, alleges that defendants have continued to infringe Paramount's copyrights, and unless temporarily, preliminarily and permanently enjoined by order of this Court will continue to infringe Paramount's copyrights, all to plaintiff Paramount's irreparable injury.

36. Defendants have committed all the aforesaid acts of infringement deliberately and willfully.

37. Each exhibition of Paramount's motion pictures, as well as the threat and offering to continue the same, constitutes a separate claim against defendants under the Copyright Act. Plaintiff Paramount has sustained, and will continue to sustain, substantial injuries, loss and damage to its ownership rights, exclusive distribution rights, and copyrights of said motion pictures, and further has and will sustain damages from the loss of value of the exclusive rights thereunder by reason of defendants' conduct.

CLAIMS 43 THROUGH 50
(Plaintiff Fox Against Defendants
for Copyright Infringement)

38. Plaintiff Fox incorporates by this reference the allegations set forth in Paragraphs 1, 5 and 10 through 19 above, as though the same were set forth in full at this point.

39. Plaintiff Fox is informed and believes, and, based upon such information and belief, alleges that defendants have from time to time within the three years last past acquired possession of videodiscs of feature motion pictures, of which the exclusive rights to distribute and to perform publicly are owned by plaintiff Fox, and have publicly exhibited such motion pictures.

40. Plaintiff Fox is informed and believes, and, upon such information and belief, alleges that defendants have

infringed plaintiff Fox's copyrights by publicly performing and causing to be publicly performed, amount others, the motion pictures listed on Schedule I at claims 43 through 50, within the three years last past. the video discs of the motion pictures unlawfully performed by defendants were acquired by them in a manner and from persons unknown to plaintiff Fox.

41. Plaintiff Fox has never authorized defendants, by license or otherwise, to publicly perform any of its motion pictures. Defendants' acts, as hereinabove alleged, are an infringement of plaintiff Fox's copyrights. Plaintiff Fox has given defendants notice that they are infringing plaintiff's copyrights and demanded that defendants cease and desist their infringing activities. Defendants have refused. Plaintiff Fox is informed and believes, and, upon such information and belief, alleges that defendants have continued to infringe Fox's copyrights, and unless temporarily, preliminarily and permanently enjoined by order of this Court will continue to infringe Fox's copyrights, all to plaintiff Fox's irreparable injury.

42. Defendants have committed all the aforesaid acts of infringement deliberately and willfully.

43. Each exhibition of Fox's motion pictures, as well as the threat and offering to continue the same, constitutes a separate claim against defendants under the Copyright Act. Plaintiff Fox has sustained, and will continue to sustain, substantial injuries, loss and damage to its ownership rights, exclusive distribution rights, and copyrights of said motion pictures, and further has and will sustain damages from the loss of value of the exclusive rights thereunder by reason of defendants' conduct.

CLAIMS 51 THROUGH 55
(Plaintiff Universal Against Defendants
for Copyright Infringement)

44. Plaintiff Universal incorporates by this reference the allegations set forth in Paragraphs 1, 6 and 10 through

19 above, as though the same were set forth in full at this point.

45. Plaintiff Universal is informed and believes, and, based upon such information and belief, alleges that defendants have from time to time within the three years last past acquired possession of videodiscs of feature motion pictures, of which the exclusive rights to distribute and to perform publicly are owned by plaintiff Universal, and have publicly exhibited such motion pictures.

46. Plaintiff Universal is informed and believes, and, upon such information and belief, alleges that defendants have infringed plaintiff Universal's copyrights by publicly performing and causing to be publicly performed, among others, the motion pictures listed on Schedule I at claims 51 through 55, within the three years last past. The video discs of the motion pictures unlawfully performed by defendants were acquired by them in a manner and from persons unknown to plaintiff Universal.

47. Plaintiff Universal has never authorized defendants, by license or otherwise, to publicly perform any of its motion pictures. Defendants' acts, as hereinabove alleged, are an infringement of plaintiff Universal's copyrights. Plaintiff Universal has given defendants notice that they are infringing plaintiff's copyrights and demanded that defendants cease and desist their infringing activities. Defendants have refused. Plaintiff Universal is informed and believes, and, upon such information and belief, alleges that defendants have continued to infringe Universal's copyrights, and unless temporarily, preliminarily and permanently enjoined by order of this Court will continue to infringe Universal's copyrights, all to plaintiff Universal's irreparable injury.

48. Defendants have committed all the aforesaid acts of infringement deliberately and willfully.

49. Each exhibition of Universal's motion pictures, as well as the threat and offering to continue the same, con-

stitutes a separate claims against defendants under the Copyright Act. Plaintiff Universal has sustained, and will continue to sustain, substantial injuries, loss and damage to its ownership rights, exclusive distribution rights, and copyrights of said motion pictures, and further has and will sustain damages from the loss of value of the exclusive rights thereunder by reason of defendants' conduct.

CLAIMS 56 THROUGH 65
(Plaintiff Disney Against Defendants
for Copyright Infringement)

50. Plaintiff Disney incorporates by this reference the allegations set forth in Paragraphs 1, 7 and 10 through 19 above, as though the same were set forth in full at this point.

51. Plaintiff Disney is informed and believes, and, based upon such information and belief, alleges that defendants have from time to time within the three years last past acquired possession of videodiscs of feature motion pictures, of which the exclusive rights to distribute, and to perform publicly are owned by plaintiff Disney, and have publicly exhibited such motion pictures.

52. Plaintiff Disney is informed and believes, and, upon such information and belief, alleges that defendants have infringed plaintiff Disney's copyrights by publicly performing and causing to be publicly performed, among others, the motion pictures listed on Schedule I at claims 56 through 65, within the three years last past. The video discs of the motion pictures unlawfully performed by defendants were acquired by them in a manner and from persons unknown to plaintiff Disney.

53. Plaintiff Disney has never authorized defendants, by license or otherwise, to publicly perform any of its motion pictures. Defendants' acts, as hereinabove alleged, are an infringement of plaintiff Disney's copyrights. Plaintiff Disney has given defendants notice that they are infringing

plaintiff's copyrights and demanded that defendants cease and desist their infringing activities. Defendants have refused. Plaintiff Disney is informed and believes, and, upon such information and belief, alleges that defendants have continued to infringe Disney's copyrights, and unless temporarily, preliminarily and permanently enjoined by order of this Court will continue to infringe Disney's copyrights, all to plaintiff Disney's irreparable injury.

54. Defendants have committed all the aforesaid acts of infringement deliberately and willfully.

55. Each exhibition of Disney's motion pictures, as well as the threat and offering to continue the same, constitutes a separate claim against defendants under the Copyright Act. Plaintiff Disney has sustained, and will continue to sustain, substantial injuries, loss and damage to its ownership rights, exclusive distribution rights, and copyrights of said motion pictures, and further has and will sustain damages from the loss of value of the exclusive rights thereunder by reason of defendants' conduct.

CLAIMS 66 THROUGH 73
(Plaintiff Warner Against Defendants
for Copyright Infringement)

56. Plaintiff Warner incorporates by this reference the allegations set forth in Paragraphs 1, 8 and 10 through 19 above, as though the same were set forth in full at this point.

57. Plaintiff Warner is informed and believes, and, based upon such information and belief, alleges that defendants have from time to time within the three years last past acquired possession of videodiscs of feature motion pictures, of which the exclusive rights to distribute and to perform publicly are owned by plaintiff Warner, and have publicly exhibited such motion pictures.

58. Plaintiff Warner is informed and believes, and, upon such information and belief, alleges that defendants have

infringed plaintiff Warner's copyrights by publicly performing and causing to be publicly performed, among others, the motion pictures listed on Schedule I at claims 66 through 73, within the three years last past. The video discs of the motion pictures unlawfully performed by defendants were acquired by them in a manner and from persons unknown to plaintiff Warner.

59. Plaintiff Warner has never authorized defendants, by license or otherwise, to publicly perform any of its motion pictures. Defendants' acts, as hereinabove alleged, are an infringement of plaintiff Warner's copyrights. Plaintiff Warner has given defendants notice that they are infringing plaintiff's copyrights and demanded that defendants cease and desist their infringing activities. Defendants have refused. Plaintiff Warner is informed and believes, and, upon such information and belief, alleges that defendants have continued to infringe Warner's copyrights, and unless temporarily, preliminarily and permanently enjoined by order of this Court will continue to infringe Warner's copyrights, all to plaintiff Warner's irreparable injury.

60. Defendants have committed all the aforesaid acts of infringement deliberately and willfully.

61. Each exhibition of Warner's motion pictures, as well as the threat and offering to continue the same, constitutes a separate claim against defendants under the Copyright Act. Plaintiff Warner has sustained, and will continue to sustain, substantial injuries, loss and damage to its ownership rights, exclusive distribution rights, and copyrights of said motion pictures, and further has and will sustain damages from the loss of value of the exclusive rights thereunder by reason of defendants' conduct.

CLAIM 74
(Plaintiff CBS Against
Defendants for Copyright Infringement)

62. Plaintiff CBS incorporates by this reference the allegations set forth in Paragraphs 1, 9 and 10 through 19 above, as though the same were set forth in full at this point.

63. Plaintiff CBS is informed and believes, and, based upon such information and belief, alleges that defendants have from time to time within the three years last past acquired possession of videodiscs of feature motion pictures, of which the exclusive rights to distribute and to perform publicly are owned by plaintiff CBS, and have publicly exhibited such motion pictures.

64. Plaintiff CBS is informed and believes, and, upon such information and belief, alleges that defendants have infringed plaintiff CBS's copyrights by publicly performing and causing to be publicly performed, among others, the motion picture listed on Schedule I at claim 74, within the three years last past. The video discs of the motion pictures unlawfully performed by defendants were acquired by them in a manner and from persons unknown to plaintiff CBS.

65. Plaintiff CBS has never authorized defendants, by license or otherwise, to publicly perform any of its motion pictures. Defendants' acts, as hereinabove alleged, are an infringement of plaintiff CBS's copyrights. Plaintiff CBS has given defendants notice that they are infringing plaintiff's copyrights and demanded that defendants cease and desist their infringing activities. Defendants have refused. Plaintiff CBS is informed and believes, and, upon such information and belief, alleges that defendants have continued to infringe CBS's copyrights, and unless temporarily, preliminarily and permanently enjoined by order of this Court will continue to infringe CBS's copyrights, all to plaintiff CBS's irreparable injury.

66. Defendants have committed all the aforesaid acts of infringement deliberately and willfully.

67. Each exhibition of CBS's motion pictures, as well as the threat and offering to continue the same, constitutes a separate claim against defendants under the Copyright Act. Plaintiff CBS has sustained, and will continue to sustain, substantial injuries, loss and damage to its ownership rights, exclusive distribution rights, and copyrights of said motion pictures, and further has and will sustain damages from the loss of value of the exclusive rights thereunder by reason of defendants' conduct.

WHEREFORE, plaintiffs pray for judgment as follows:

A. That the defendants be enjoined, preliminarily during the pendency of this action, and perpetually thereafter, from directly or indirectly copying, duplicating, supplying for exhibition, exhibiting and performing, by the use of any positive prints, negatives, video masters, videodiscs or videotapes the copyrighted motion pictures owned, sold or leased by plaintiffs, including in the foregoing, any transcription or recording of the copyrighted motion pictures by or from which, in whole or in part, it may in any manner, or by any method, be exhibited, performed, represented, produced or reproduced, and from concealing, destroying, tampering with, dealing in or disposing of any positive prints or negatives, transcriptions or recordings, video masters, videodiscs or videotape cassettes, in any manner without authority under the respective copyrights, and from in any manner infringing or contributing to or participating in the infringement by others of any of the copyrights in said motion pictures, and from acting in concert with, aiding and abetting others to infringe any of said copyrights in any way.

B. That defendants be required to account for and pay over to each plaintiff either (i) the actual damages suffered by each plaintiff as a result of the infringements of its copyrights, and any profits that are not taken into account

in computing actual damages, or (ii) statutory damages of \$10,000 for each copyright for all infringements with respect to that copyright, at each plaintiff's election. If any plaintiff elects statutory damages, and the Court finds that infringement was committed willfully, damages of \$50,000 for each copyright for all willful infringements with respect to that title.

C. That defendants preliminarily, during the pendency of this action, and permanently thereafter, be enjoined from publicly performing any motion pictures of which the plaintiff are or become the copyrights owners.

D. That plaintiffs recover judgment for damages in such amount as is proved at the trial hereof.

E. That plaintiffs recover reasonable attorneys' fees and costs of suit incurred herein; and

F. That plaintiffs have such other and further relief as to this Court seems just and proper.

DATED: April 25, 1983.

SCHEDULE I

1	2	3	4	5	6
CLAIM NO.	TITLE	COPYRIGHT HOLDERS	DATE OF PUBLICATION	COPYRIGHT NO.	OWNERS, ASSIGNEES OR EXCLUSIVE LICENSEES OF UNITED STATES' PUBLIC PERFORMING RIGHTS

1	ABSENCE OF MALICE	Columbia Pictures Industries, Inc.	11/19/71	LP 39154	Columbia Pictures
2	CHINA SYNDROME, THE	Columbia Pictures Industries, Inc.	03/16/79	PA 30-789	Columbia Pictures
3	CLOSE ENCOUNTERS OF THE THIRD KIND	Columbia Pictures Industries, Inc.	11/16/82	LP 50006	Columbia Pictures
4	DEEP, THE	Columbia Pictures Industries, Inc.	06/17/77	LP 47876	Columbia Pictures
5	EYES OF LAURA MARS	Columbia Pictures Industries, Inc.	08/02/78	PA 16-190	Columbia Pictures

JA-20

6	KRAMER VERSUS KRAMER	Columbia Pictures Industries, Inc.	12/19/79	PA 53-409	Columbia Pictures
7	USED CARS	Columbia Pictures Industries, Inc.	12/12/80	PA 90-751	Columbia Pictures
8	CARNAL KNOWLEDGE	Avco Embassy Pictures Corp. & Icarus Productions	06/30/71	LP 40121	Embassy Pictures
9	JOHN CARPENTER'S ESCAPE FROM NEW YORK	Avco Embassy Pictures Corporation	05/01/82	PA 110-942	Embassy Pictures
10	FAREWELL MY LOVELY	The EK Corporation	08/13/75	LP 50142	Embassy Pictures
11	FOG, THE	Avco-Embassy Pictures Corporation	01/14/80	PA 61-242	Embassy Pictures
12	GRADUATE, THE	Embassy a.d.o. Embassy Pictures Corp. & Lawrence Turnan, Inc.	12/20/67	LP 40200	Embassy Pictures
13	IN PRAISE OF OLDER WOMEN	R.S.L. Productions, Ltd.	09/22/78	PA 33-216	Embassy Pictures

JA-21

SCHEDULE I

1	2	3	4	5	6
CLAIM NOS.	TITLE	COPYRIGHT HOLDERS	DATE OF PUBLICATION	COPYRIGHT NO.	DISTRIBUTORS
14	PRODUCERS, THE	Embassy Pictures Corporation	11/15/67	LP 42370	Embassy Pictures
15	WATERSHIP DOWN	Watership Productions, Ltd.	10/14/78	PA 25-129	Embassy Pictures
16	AMERICAN GIGOLO	Pierre Associates	01/30/80	PA 70-187	Paramount Pictures
17	BAD NEWS BEARS, THE	Paramount Pictures Corporation	03/26/76	LP 46363	Paramount Pictures Corporation
18	BARBARELLA	Dino De Laurentis Cinemografica, S.P.A.	01/04/68	LF 29	Paramount Pictures Corporation
19	CHINATOWN	Long Road Productions	06/20/74	LP 43628	Paramount Pictures Corporation
20	DEATH WISH	Dino De Laurentiis	07/17/74	LP 43733	Paramount Pictures Corporation

JA-22

21	ELEPHANT MAN	Brooksfilms, Ltd.	09/22/80	PA94-239	Paramount Pictures Corporation
22	GODFATHER, THE	Paramount Pictures Corporation	02/23/72	LP 40553	Paramount Pictures Corporation
23	GREASE	Paramount Pictures Corporation	12/31/77	PA 16-189	Paramount Pictures Corporation
24	GREATEST SHOW ON EARTH, THE	Paramount Pictures Corporation	04/01/52 Renewal 04/01/80	LP 1842 RE 55-807	Paramount Pictures Corporation
25	HAROLD AND MAUDE	Paramount Pictures Corporation & Lewis & Colin Higgins Productions	12/31/71	LP 40312	Paramount Pictures Corporation
26	KING KONG	Dino De Laurentiis Corporation	11/29/76	LP 47147	Paramount Pictures Corporation

JA-23

SCHEDULE I

1 CLAIM NOS.	2 TITLE	3 COPYRIGHT HOLDERS	4 DATE OF PUBLICATION	5 COPYRIGHT NO.	6 DISTRIBUTORS
27	LADY SINGS THE BLUES, THE	Jobete Music Co., Inc., Motown Productions, Weston Associates, Inc. & Furie Productions, Inc.	10/06/72	LP 41419	Paramount Pictures Corporation
28	LOOKING FOR MR. GOODBAR	Paramount Pictures Corporation	10/11/77	LP 49668	Paramount Pictures Corporation
29	ODD COUPLE, THE	Paramount Pictures Corporation	05/02/68	LP 36430	Paramount Pictures Corporation
30	ROMEO AND JULIET	Paramount Pictures Corporation	03/04/68	LF 27	Paramount Pictures Corporation
31	SATURDAY NIGHT FEVER	Paramount Pictures Corporation	10/28/77	LP 50391	Paramount Pictures Corporation

JA-24

32	SHANE	Paramount Pictures Corporation	05/27/53 Renewal 06/25/80	LP 2892 RE 62-117	Paramount Pictures Corporation
33	SHOOTIST, THE	Dino De Laurentiis Corporation	07/12/76	LP 47142	Paramount Pictures Corporation
34	SOME KIND OF HERO	Paramount Pictures Corporation	03/19/82	PA 141-419	Paramount Pictures Corporation
35	STALAG 17	Paramount Pictures Corporation	07/01/53 Renewal 06/25/80	LP 2894 RE 62-118	Paramount Pictures Corporation
36	STAR TREK, THE MOTION PICTURE	Century Associates	12/06/79	PA 58-633	Paramount Pictures Corporation
37	STAR TREK 75 Episodes	Paramount Pictures Corporation and Norway Corporation	1967/1978		Paramount Pictures Corporation and Norway Corporation
38	STARTING OVER	Paramount Pictures Corporation	09/21/79	PA 61-640	Paramount Pictures Corporation

JA-25

SCHEDULE I

1 CLAIM NOS.	2 TITLE	3 COPYRIGHT HOLDERS	4 DATE OF PUBLICATION	5 COPYRIGHT NO.	6 DISTRIBUTORS
39	SUNSET BOULEVARD	Paramount Pictures Corporation	08/04/50 Renewal 09/09/77	LP 260 R 671460	Paramount Pictures Corporation
40	UP IN SMOKE	Paramount Pictures Corporation	08/29/78	PA 25-130	Paramount Pictures Corporation
41	URBAN COWBOY	Cowboy Associated	05/23/80	PA 85-538	Paramount Pictures Corporation
42	WAR OF THE WORLDS	Paramount Pictures Corp.	10/01/53 Renewal 08/26/80	LP 3999 RE 68-954	Paramount Pictures Corporation
43	BUTCH CASSIDY AND THE SUNDANCE KID	Twentieth Century-Fox Film Corporation	09/23/69	LP 28925	Twentieth Century-Fox Film Corporation
44	FRENCH CONNECTION, THE	Twentieth Century-Fox Film Corporation	10/07/71	LP 40443	Twentieth Century-Fox Film Corporation

JA-26

45	HELLO DOLLY	Twentieth Century-Fox Film Corporation	12/18/69	LP 3818	Twentieth Century-Fox Film Corporation
46	MASH	Aspen Productions, Inc. & Twentieth Century-Fox Film Corporation	12/30/69	LP 37644	Twentieth Century-Fox Film Corporation
47	PATTON	Twentieth Century-Fox Film Corporation	12/30/69	LP 38179	Twentieth Century-Fox Film Corporation
48	STAGECOACH	Walter Wanger Productions, Inc.	02/20/39 Renewal 01/25/67	LP 8662 R 402779	Twentieth Century-Fox Film Corporation
49	THREE MUSKETEERS, THE	Twentieth Century-Fox Film Corp.	02/17/39 Renewal 12/03/62	LP 87528 R 305996	Twentieth Century-Fox Film Corporation
50	TORA! TORA! TORA!	Twentieth Century-Fox Film Corporation	09/30/70	LP 38329	Twentieth Century-Fox Film Corporation
51	AMERICAN WEREWOLF IN LONDON, AN	American Werewolf, Inc.	08/21/81	PA 120-391	Universal City Studios, Inc.

JA-27

SCHEDULE I

1 CLAIM NOS.	2 TITLE	3 COPYRIGHT HOLDERS	4 DATE OF PUBLICATION	5 COPYRIGHT NO.	6 DISTRIBUTORS
52	ENDLESS LOVE	Polygram Pictures, Ltd.	07/08/81	PA 110-524	Universal City Studios, Inc.
53	GREAT MUPPET CAPER, THE	ITC Entertainment Limited	06/18/81	PA 142-978	Universal City Studios, Inc.
54	JAZZ SINGER, THE	EMI Films, Inc.	12/14/80	PA 103-242	Universal City Studios, Inc.
55	JOHN CARPENTER'S THE THING	Universal City Studios, Inc.	06/11/82	PA 145-007	Universal City Studios, Inc.
56	ABSENT- MINDED PROFESSOR, THE	Walt Disney Productions	12/20/60	LP 18401	Buena Vista Distribution Co., Inc.
57	APPLE DUMPLING GANG, THE	Walt Disney Productions	07/08/73	LP 44785	Buena Vista Distribution Co., Inc.

JA-28

58	BEARS AND I, THE	Walt Disney Productions	07/30/74	LP 43779	Buena Vista Distribution Co., Inc.
59	CANDLESHOE	Walt Disney Productions	02/08/78	PA 40-731	Buena Vista Distribution Co., Inc.
60	GREAT LOCOMOTIVE CHASE, THE	Walt Disney Productions	04/17/56	LP 8886	Buena Vista Distribution Co., Inc.
61	GUS	Walt Disney Productions	06/76/76	LP 465531	Buena Vista Distribution Co., Inc.
62	KIDNAPPED!	Walt Disney Productions	02/09/60	LP 15456	Buena Vista Distribution Co., Inc.
63	MARY POPPINS	Walt Disney Productions	08/18/64	LP 28936	Buena Vista Distribution Co., Inc.
64	OLD YELLER	Walt Disney Productions	09/25/57	LP 9422	Buena Vista Distribution Co., Inc.
65	20,000 LEAGUES UNDER THE SEA	Walt Disney Productions	09/23/54 Renewal 08/11/82	LP 4463 RR 123-895	Buena Vista Distribution Co., Inc.

JA-29

SCHEDULE I

1 CLAIM NOS.	2 TITLE	3 COPYRIGHT HOLDERS	4 DATE OF PUBLICATION	5 COPYRIGHT NO.	6 DISTRIBUTORS
66	BLAZING SADDLES	Warner Bros, Inc.	02/07/74	LP 43744	Warner Bros, Inc.
67	DIRTY HARRY	Warner Bros, Inc.	12/22/71	LP 41628	Warner Bros, Inc.
68	HAMLET	Electronovision Productions, Inc.	09/23/64	LP 32355	Warner Bros, Inc.
69	IN-LAWS, THE	Warner Bros, Inc.	06/15/79	PA 50-009	Warner Bros, Inc.
70	MOVIE, MOVIE	I.T.C. Film, Inc.	11/22/78	PA 28 980	Warner Bros, Inc.
71	OH, GOD!	Warner Bros, Inc.	10/07/77	PA 1-188	Warner Bros, Inc.
72	PUBLIC ENEMY	Warner Bros, Inc.	04/04/31 Renewal 05/29/58	LP 2194 R 215439	Warner Bros, Inc.

JA-30

73	REBEL WITHOUT A CAUSE	Warner Bros, Inc.	10/29/55	LP 7249	Warner Bros, Inc.
74	MY FAIR LADY	CBS Inc.	04/23/64	LP 33509	CBS Inc.

JA-31

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Counter-claimants,

v.

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Counter-defendants.

**ANSWER TO THE COMPLAINT FOR INFRINGEMENT
OF COPYRIGHTS; COUNTERCLAIM FOR VIOLATIONS
OF THE ANTITRUST LAWS; BREACH OF COVENANT
OF GOOD FAITH AND FAIR DEALING; TORTIOUS
BREACH OF COVENANT OF GOOD FAITH AND FAIR
DEALING; AND UNFAIR COMPETITION; AND DEMAND
FOR JURY TRIAL**

Defendants PROFESSIONAL REAL ESTATE INVESTORS, INC., d/b/a LA MANCHA PRIVATE CLUB AND VILLAS ("La Mancha") and Kenneth F. Irwin ("Mr. Irwin"), by their attorneys, answer the complaint as follows:

1. Admit that paragraph 1 of the complaint purports to invoke the statutes cited, but deny any violations of law.

2. Lack knowledge or information sufficient to admit or deny the averments of paragraphs 2, 3, 4, 5, 6, 7, 8, 9, 13, 14, 16 and 17.

3. Admit the averments of paragraph 10 except state that they lack knowledge or information sufficient to admit or deny the allegations concerning defendant Erland Kyllonen.

4. With respect to the averments of paragraph 11, deny that Erland Kyllonen is or since October 1982, has been associated with the operation of La Mancha and/or Mr. Irwin; admit that defendants advertise in local and national publications that videodiscs may be rented by guests at La Mancha, and that some villas are equipped with videodisc players and widescreen projections systems; deny that any other customer facilities are equipped with videodisc players and/or widescreen projection systems; deny that La Mancha customers "order" discs of plaintiffs' copyrighted pictures to the extent that this allegation implies videodiscs are delivered to customers by room service; deny that La Mancha is open to the public; with respect to averments that copyrighted motion pictures are publicly performed without authorization or permission from plaintiffs no response is due in that the averment is a conclusion of law; however, to the extent this may be deemed an averment of material fact, it is denied; and deny each and every remaining averment of paragraph 11.

5. No response to paragraph 12 is required, inasmuch as it states legal conclusions; however, to the extent this may be deemed an allegation of material fact, it is denied.

6. No answer is due to paragraph 15 inasmuch as it states legal conclusions; however, to the extent paragraph 15 may be deemed to allege material facts, defendants state that they lack knowledge or information sufficient to admit or deny the allegations of paragraph 15.

7. Each and every averment of paragraphs 18, 19, 20, 24, 25, 28, 30, 31, 34, 36, 37, 40, 42, 43, 46, 48, 49, 52, 54, 55, 58, 60, 61, 64, 66 and 67 are specifically denied.

8. Repeat and reaver their answers to the paragraphs referred to in paragraphs 20, 26, 32, 38, 44, 50, 56 and 62.

9. With respect to the averments of paragraphs 21, 27, 33, 39, 45, 51, 57 and 63, admit that defendants have acquired possession of videodiscs of feature motion pictures, but deny these allegations to the extent that they imply any wrongdoing in obtaining possession of the videodiscs; lack knowledge or information sufficient to admit or deny allegations that the plaintiffs named in the aforementioned paragraphs own the exclusive rights to distribute and perform publicly the motion pictures identified in the complaint; no answer is due to the allegations that defendants have publicly exhibited such motion pictures, inasmuch as this allegation is a legal conclusion; however, to the extent that these allegations may be deemed an allegation of material fact, they are denied; and deny each and every remaining averment of the aforementioned paragraphs.

10. With respect to the averments of paragraphs 23, 29, 35, 41, 47, 53, 59 and 65, admit that plaintiffs have never authorized defendants to perform publicly any motion picture but deny these allegations to the extent that they imply defendants publicly performed any motion picture or need plaintiffs' authorization; admit that plaintiffs have given defendants notice of their allegation of infringement, but deny any violations of law; and deny each and every remaining averment of the aforementioned paragraphs.

11. Defendants deny each and every allegation not specifically identified above.

AFFIRMATIVE DEFENSES

First Affirmative Defense (Laches and Estoppel)

12. Plaintiffs are not entitled to maintain this suit or allege infringement of copyrights by defendants by reason of laches and estoppel. Defendants, as well as numerous other retailers of videodiscs, have openly and continuously rented videodiscs for private viewing in homes or rented accommodations. Prior to this suit, plaintiffs made no attempt to obtain a judicial determination of the alleged infringement of their exclusive rights of public performance by defendants or in any of the many businesses operating similar videodisc rental programs.

13. Defendants have relied to their detriment upon plaintiffs' delay and acquiescence and have continued their rentals of videodiscs. For these reasons, plaintiffs are barred by principles of estoppel and laches from alleging that any acts of defendants now constitute an infringement of plaintiffs' copyrights.

Second Affirmative Defense (Misuse of Copyright and Unclean Hands)

14. Plaintiffs have alleged in their complaint that they are the copyright owners, co-owners or exclusive licensees of exhibition, distribution and other rights in motion pictures identified in the complaint. Such rights include exclusive rights to perform or to authorize performance of the copyrighted motion pictures publicly. 17 U.S.C. § 106.

15. Defendants' exclusive rights to perform publicly the motion pictures that are the subject of this suit are limited by the "first sale" doctrine, which is codified at 17 U.S.C. § 109(a). One who purchases a videodisc of a copyrighted motion picture is entitled to dispose of it by sale, rental or any other means. *Id.*

16. The result of plaintiffs' asserted right to prevent purchasers of videodiscs from renting them for private

viewing at home or in rented accommodations would be to extend plaintiffs' copyrights beyond their proper scope or to enlarge the copyright monopoly so as to embrace features not covered by the copyright.

17. As a result of their attempts improperly to enlarge their copyright monopoly, plaintiffs have misused their copyrights and are therefore barred from protesting defendants' conduct.

COUNTERCLAIM

First Counterclaim (Violation of Section 2 of the Sherman Act)

18. This counterclaim is filed pursuant to, and this Court has original jurisdiction of the matters complained of under, 15 U.S.C. §§ 15 and 26. Venue lies under 15 U.S.C. § 22.

19. This Court has ancillary and pendent jurisdiction over counter-claimants' counterclaim. This counterclaim arises from a common nucleus of operative facts with those alleged in support of the federal question claims of plaintiffs' complaint.

20. The alleged unlawful acts and violations described in this counterclaim have been and are, in part, conceived, carried out and made effective within the Central District of California. Plaintiffs performed many of the alleged unlawful acts in this district. The interstate trade and commerce described in this counterclaim is carried out, in part, within this district. The plaintiffs transact business, are licensed to do business and are doing business in this district.

21. Counter-claimant and defendant PROFESSIONAL REAL ESTATE INVESTORS, INC., d/b/a LA MANCHA PRIVATE CLUB AND VILLAS ("La Mancha") is a corporation organized and existing under the laws of the state of Cal-

ifornia, with its principal place of business in Palm Springs, California.

22. Counter-claimant and defendant KENNETH F. IRWIN ("Mr. Irwin") is a resident of Palm Springs, California.

23. Counter-defendant and plaintiff COLUMBIA PICTURES INDUSTRIES, INC. is a corporation duly incorporated under the laws of the State of Delaware.

24. Counter-defendant and plaintiff EMBASSY PICTURES is a joint venture between Lear Productions, Inc. and Perenchio Pictures, Inc., organized under the laws of the State of California.

25. Counter-defendant and plaintiff PARAMOUNT PICTURES CORPORATION is a corporation duly incorporated under the laws of the State of Delaware.

26. Counter-defendant and plaintiff TWENTIETH CENTURY-FOX FILM CORPORATION is a corporation duly incorporated under the laws of the State of Delaware.

27. Counter-defendant and plaintiff UNIVERSAL CITY STUDIOS, INC. is a corporation duly incorporated under the laws of the State of Delaware.

28. Counter-defendant and plaintiff WALT DISNEY PRODUCTIONS is a corporation duly incorporated under the laws of the State of California.

29. Counter-defendant and plaintiff WARNER BROS. INC. is a corporation duly incorporated under the laws of the State of Delaware.

30. Counter-defendant and plaintiff CBS INC. is a corporation duly incorporated under the laws of the State of New York.

31. Various other corporations, companies and individuals not made counter-defendants in this claim participated as co-conspirators with the above counter-defendants in the

offenses alleged herein and performed acts and made statements in furtherance thereof.

32. At all times relevant, plaintiffs and counter-defendants have made substantial sales in interstate commerce, including sales of videodiscs which are the subject of this counterclaim. Plaintiffs' and counter-defendants' alleged activities have affected interstate commerce and the violations alleged herein have affected, burdened and interrupted interstate commerce.

33. Counter-claimants and defendants hereby reallege, as if fully set forth herein, the allegations of their Second Affirmative Defense (paragraphs 14-17, inclusive).

34. Plaintiffs' activities, which are intended to extend or enlarge their copyright monopolies beyond their proper scope, are an attempt to monopolize, restrain and eliminate trade and commerce in retail sale and rental of videodiscs in the United States, the State of California and the Palm Springs Metropolitan area of California, by destroying and restraining the counter-claimants' business and the business of others engaged in renting videodiscs. In furtherance of their attempt to monopolize, restrain and eliminate the relevant trade and commerce, counter-defendants and plaintiffs engaged in and continue to engage in the following activities, among others: the filing of this suit, which is a sham and false and known by plaintiffs to be so; bad faith prosecution of this suit; boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs; and other activities to coerce defendants into acquiescing to plaintiffs' attempts to monopolize, restrain and eliminate the relevant trade and commerce and to destroy counter-claimants' business.

35. Such conduct constitutes an attempt to monopolize, restrain and eliminate the relevant trade and commerce in violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

36. By reason of and as a direct and proximate result of the unlawful conduct alleged herein, defendants and counter-claimants have been damaged in their business and property in that they have had, among other things, to expend substantial sums of money to defend this suit, including attorneys' fees. Counter-claimants do not now know the full extent of their damages. The amount of damages, including costs of defense of this suit through trial, will be proved at trial.

37. The acts and practices described above are reasonably likely to continue in the future and to create future injury and damage to defendants and counter-claimants unless restrained by an order of this Court.

Second Counterclaim (Violation of Section 2 of the Sherman Act)

38. Counter-claimants hereby reallege, as if fully set forth herein, the allegations of their Second Affirmative Defense and their First Counterclaim (paragraphs 14 through 37, inclusive).

39. Plaintiffs' activities, which are intended to extend or enlarge their copyright monopolies beyond their proper scope, constitute a conspiracy to monopolize, restrain and eliminate trade and commerce in retail sale and rental of videodiscs in the United States, the State of California and the Palm Springs Metropolitan area of California, by destroying defendants' business. In furtherance of their conspiracy to monopolize, restrain and eliminate the relevant trade and commerce, plaintiffs' engaged in and continue to engage in the following activities, among others: the filing of this suit, which is a sham and false and known by plaintiffs to be so; bad faith prosecution of this suit; boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs; and other activities to coerce defendants and others similarly situated into leaving the business of videodisc rental and into acquiescing to plaintiffs' conspiracy to monopolize, restrain and eliminate

the relevant trade and commerce and to destroy counter-claimants' business.

40. By such conduct, plaintiffs and co-conspirators have contracted, combined and conspired to monopolize the retail sale and rental of videodiscs.

41. Such conduct constitutes a conspiracy to monopolize and is a violation of Section 2 of the Sherman Act, 15 U.S.C. § 2.

42. By reason of and as a direct and proximate result of the unlawful conduct alleged herein, defendants and counter-claimants have been damaged in their business and property in that they have had, among other things, to expend substantial sums of money to defend this suit, including attorneys' fees. Counter-claimants do not now know the full extent of their damages. The amount of damages, including costs of defense of this suit through trial, will be proved at trial.

43. The acts and practices described above are reasonably likely to continue in the future and to create future injury and damage to defendants and counter-claimants unless restrained by an order of this Court.

Third Counterclaim (Conspiracy to restrain trade in violation of Section 1 of the Sherman Act)

44. Counter-claimants hereby reallege, as if fully set forth herein, the allegations of their Second Affirmative Defense and their First and Second Counterclaims (paragraphs 14 through 43, inclusive).

45. Plaintiffs and co-conspirators have contracted, combined and conspired to unreasonably restrain and eliminate trade and commerce in the sale and rental of videodiscs in the United States, the State of California and the Palm Springs Metropolitan area of California, by among things, engaging in and continuing to engage in the following activities, among others: the filing of this suit, which is a

sham and false and known by plaintiffs to be so; bad faith prosecution of this suit; boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs; and other activities to coerce defendants into acquiescing to plaintiffs' restraint and elimination of the relevant trade and commerce and to destroy counter-claimants' business in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1.

46. By reason of and as a direct and proximate result of the unlawful conduct alleged herein, defendants and counter-claimants have been damaged in their business and property in that they have had, among other things, to expend substantial sums of money to defend this suit, including attorneys' fees. Counter-claimants do not now know the full extent of their damages. The amount of damages, including costs of defense of this suit through trial, will be proved at trial.

47. The acts and practices described above are reasonably likely to continue in the future and to create future injury and damage to defendants and counter-claimants unless restrained by an order of this Court.

Fourth Counterclaim (Violation of the Cartwright Act)

48. Counter-claimants and defendants hereby reallege, as if fully set forth herein, the allegations of their Second Affirmative Defense and their First, Second and Third Counterclaims (paragraphs 14 through 47, inclusive).

49. Plaintiffs and counter-defendants, by the conduct alleged herein, have violated the state antitrust laws known as the "Cartwright Act," *Cal. Bus. & Prof. Code*, §§ 16,700, *et seq.*

50. By reason of and as a direct and proximate result of the unlawful conduct alleged herein, defendants and counter-claimants have been damaged in their business and property in that they have had, among other things, to expend substantial sums of money to defend this suit, in-

cluding attorneys' fees. Counter-claimants do not now know the full extent of their damages. The amount of damages, including costs of defense of this suit through trial, will be proved at trial.

51. The acts and practices described above are reasonably likely to continue in the future and to create future injury and damage to defendants and counter-claimants unless restrained by an order of this Court.

Fifth Counterclaim (Breach of the Covenant of Good Faith and Fair Dealing)

52. Counter-claimants hereby reallege, as if fully set forth herein, the allegations of their Second Affirmative Defense and their First, Second, Third and Fourth Counterclaim (paragraphs 14 through 51, inclusive).

53. Plaintiffs have, either directly or through others, sold to or authorized the sale of videodiscs of copyrighted motion pictures to counter-claimants and defendants.

54. Plaintiffs have a duty and an implied covenant of good faith and fair dealing in connection with making or authorizing sales of videodiscs of copyrighted motion pictures. In violation of that duty and implied covenant of good faith and fair dealing, plaintiffs have attempted to restrict the legal rights of counter-claimants and defendants to dispose of the videodiscs of copyrighted motion pictures by sale, rental or any other means. Such bad faith dealings are in violation of plaintiffs' duty and implied covenant of good faith and fair dealing and of *Cal. Com. Code*, § 1203.

55. By reason of and as a direct and proximate result of the unlawful conduct alleged herein, defendants and counter-claimants have been damaged in their business and property in that they have had, among other things, to expend substantial sums of money to defend this suit, including attorneys' fees. Counter-claimants do not now know the full extent of their damages. The amount of damages,

including costs of defense of this suit through trial, will be proved at trial.

Sixth Counterclaim (Tortious Breach of the Covenant of Good Faith and Fair Dealing)

56. Counter-claimants hereby reallege, as if fully set forth herein, the allegations of their Second Affirmative Defense and their First, Second, Third, Fourth and Fifth Counterclaims (paragraphs 14 through 55, inclusive).

57. By the conduct alleged above, plaintiffs and counter-defendants breached an implied covenant of good faith and fair dealing by engaging in bad faith actions extraneous to their agreements with the intention to frustrate counter-claimants and defendants' enjoyment of their rights under their agreements.

58. By reason of and as a direct and proximate result of the unlawful conduct alleged herein, defendants and counter-claimants have been damaged in their business and property in that they have had, among other things, to expend substantial sums of money to defend this suit, including attorneys' fees. Counter-claimants do not now know the full extent of their damages. The amount of damages, including costs of defense of this suit through trial, will be proved at trial.

59. Plaintiffs and counter-defendants engaged in the above acts with malice, fraud and oppression, express and implied, as defined in *Cal. Civ. Code*, § 3294 and counter-claimants, should recover, in addition to actual damages, punitive damages in the amount of at least ten million dollars (\$10,000,000.00) to make an example of and to punish defendants.

60. The acts and practices described above are reasonably likely to continue in the future and to create future injury and damage to defendants and counter-claimants unless restrained by an order of this Court.

Seventh Counterclaim (Unfair Competition)

61. Counter-claimants and defendants hereby reallage, as if fully set forth herein, the allegations of their Second Affirmative Defense and their First, Second, Third, Fourth, Fifth and Sixth Counterclaims (paragraphs 14 through 60, inclusive).

62. Plaintiffs and counter-defendants, due to the conduct alleged above, violated the state unfair competition statute, *Cal. Bus. & Prof. Code*, §§ 17,200, *et seq.*, and the common law of unfair competition.

63. By reason of and as a direct and proximate result of the unlawful conduct alleged herein, defendants and counter-claimants have been damaged in their business and property in that they have had, among other things, to expend substantial sums of money to defend this suit, including attorneys' fees. Counter-claimants do not now know the full extent of their damages. The amount of damages, including costs of defense of this suit through trial, will be proved at trial.

64. By means of unlawful, unfair and fraudulent competition, plaintiffs and counter-defendants have, or may have, made wrongful gains. Counter-claimants do not now know the full extent of these wrongful gains. The amount of such wrongful gains will be proved at trial and counter-claimants and defendants will request the court to order restitution of such amounts to counter-claimants and defendants.

65. Plaintiffs and counter-defendants engaged in the above acts with malice, fraud and oppression, express and implied, as defined in *Cal. Civ. Code*, § 3294 and counter-claimants, should recover, in addition to actual damages, punitive damages in the amount of at least ten million dollars (\$10,000,000.00) to make an example of and to punish defendants.

66. The acts and practices described above are reasonably likely to continue in the future and to create future

injury and damages to defendants and counter-claimants unless restrained by an order of this Court.

PRAYER

WHEREFORE, counter-claimants and defendants pray:

A. That the court adjudge and decree that plaintiffs' actions described in counter-claimants' First Counterclaim constitute an attempt to monopolize in violation of Section 2 of the Sherman Act; that the actual damages to the business and property of counter-claimants resulting therefrom be determined, trebled and recovered, together with attorneys' fees;

B. that the court issue an injunction restraining perpetually the plaintiffs, their successors or assigns, officers, directors, agents, employees and persons acting for or on their behalf from continuing the unlawful effects of such an attempt to monopolize;

C. that the court adjudge and decree that plaintiffs' actions described in counter-claimants' Second Counterclaim constitute a conspiracy to monopolize in violation of Section 2 of the Sherman Act; that the actual damages to the business and property of counter-claimants proximately resulting therefrom be determined, trebled and recovered, together with attorneys fees;

D. that the court issue an injunction restraining perpetually the plaintiffs, their successors or assigns, officers, directors, agents, employees and persons acting for or on their behalf from continuing the unlawful effects of such a conspiracy to monopolize;

E. that the court adjudge and decree that plaintiffs' actions described in counter-claimants' Third Counterclaim constitute a contract, combination or conspiracy in restraint of trade in violation of Section 1 of the Sherman Act; that the actual damages to the business and property

of counter-claimants proximately resulting therefrom be determined, trebled and recovered, together with attorneys fees;

F. that the court issue an injunction restraining perpetually the plaintiffs, their successors or assigns, officers, directors, agents, employees and persons acting for or on their behalf from continuing the unlawful effects of such restraint of trade;

G. that the court adjudge and decree that plaintiffs' actions described in counter-claimants' Fourth Counterclaim constitute a violation of the Cartwright Act; that the actual damages to the business and property of counter-claimants proximately resulting therefrom be determined, trebled and recovered, together with attorneys fees;

H. that the court issue an injunction restraining perpetually the plaintiffs, their successors or assigns, officers, directors, agents, employees and persons acting for or on their behalf from continuing the unlawful effects of such a violation of the Cartwright Act;

I. that the damages sustained by defendants in defending this suit, including attorneys fees, be calculated and that plaintiff be ordered to pay three times the amount of damages so calculated together with appropriate interest;

J. that the court adjudge and decree that plaintiffs' actions described in counter-claimants' Fifth Counterclaim constitute a breach of the covenant of good faith and fair dealing; that the actual amount of damages to counter-claimants' proximately resulting therefrom be determined;

K. that the court adjudge and decree that plaintiffs' actions described in counter-claimants' Sixth Counterclaim constitute a tortious breach of the covenant of good faith and fair dealing; that the actual amount of damages to counter-claimants' proximately resulting therefrom be determined;

L. that the court adjudge and decree that plaintiffs be required to pay to counter-claimants at least ten million dollars (\$10,000,000.00) as punitive and exemplary damages for plaintiffs' tortious breach of the covenant of good faith and fair dealing;

M. that the court issue an injunction restraining perpetually the plaintiffs, their successors or assigns, officers, directors, agents, employees and persons acting for or on their behalf from continuing the unlawful effects of such a tortious breach of the covenant of good faith and fair dealing;

N. that the court adjudge and decree that plaintiffs' actions described in counter-claimants' Seventh Counterclaim constitute a violation of *Cal. Bus. & Prof. Code*, §§ 17,200, *et seq.* and the common law of unfair competition; that the actual amount of damages to counter-claimants proximately resulting therefrom be determined and restored to counter-claimants;

O. that the court order restitution to counter-claimants and defendants of plaintiffs' and counter-defendants' wrongful gains which were, or which may have been, acquired by means of their unfair, unlawful and illegal competition

P. that the court adjudge and decree that plaintiffs be required to pay to counter-claimants at least ten million dollars (\$10,000,000.00) as punitive and exemplary damages for plaintiffs' violation of *Cal. Bus. & Prof. Code*, §§ 17,200, *et seq.* and the common law of unfair competition;

Q. that the court issue an injunction restraining perpetually the plaintiffs, their successors or assigns, officers, directors, agents, employees and persons acting for or on their behalf from continuing the unlawful effects of such a violation of *Cal. Bus. & Prof. Code*, §§ 17,200, *et seq.* and the common law of unfair competition; and

R. that the court grant such additional relief as it deems just.

Dated: February 9, 1984.

Jeffrey W. King
COLLIER, SHANNON, RILL & SCOTT

Michael J. Dennis
Laura J. Barns
MICHAEL J. DENNIS LAW CORPORATION

By /s/ Laura J. Barns
Laura J. Barns
Attorneys for Defendants and
Counter-claimants La Mancha
and Kenneth F. Irwin

DEMAND FOR JURY TRIAL

Pursuant to Rule 38, Federal Rules of Civil Procedure, and Local Rule 3.4.10.1, defendants and counter-claimants hereby demand trial by jury of all issues triable of right by jury in the above-entitled action.

Dated: February 9, 1984.

Jeffrey W. King
COLLIER, SHANNON, RILL & SCOTT

Michael J. Dennis
Laura J. Barns
MICHAEL J. DENNIS LAW CORPORATION

By /s/ Laura J. Barns
Laura J. Barns
Attorneys for Defendants and
Counter-claimants La Mancha
and Kenneth F. Irwin

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Case No: 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

AUG 29 1984

REPLY TO COUNTERCLAIMS

Plaintiff and counterdefendant Columbia Pictures Industries, Inc. ("plaintiff") answers the counterclaims of defendants Professional Real Estate Investors, Inc., and Kenneth F. Irwin as follows:

1. In the event that any of the allegations denominated "affirmative defenses" at paragraphs 14, 15, 16 or 17, and incorporated by reference at paragraphs 33, 38, 44, 48, 52, 56 and 61, of defendant's pleading herein should, pursuant to Federal Rule of Civil Procedure 8(c) be treated at any time as counterclaims, rather than affirmative defenses, plaintiff denies each and all of the allegations contained in paragraphs 14, 15, 16 and 17.

2. Answering paragraph 18, plaintiff denies each and all of the allegations contained therein.

3. Answering paragraph 19, plaintiff denies each and all of the allegations contained therein.

4. Answering paragraph 20, plaintiff admits that it transacts business, is licensed to do business and is doing business in the Central District of California. Except as specifically admitted, plaintiff denies each and all of the allegations of paragraph 20.

5. Plaintiff admits the allegations of paragraphs 21, 22, 23, 24, 25, 26, 27, 28, 29 and 30.

6. Answering paragraph 31, plaintiff denies each and all of the allegations contained therein.

7. Answering paragraph 32, plaintiff denies each and all of the allegations contained therein.

8. Answering paragraph 33, plaintiff denies each and all of the allegations contained therein and incorporated therein by reference.

9. Answering paragraphs 34, 35, 36 and 37, plaintiff denies each and all of the allegations contained therein.

10. Answering paragraph 38, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 37 and they are incorporated by this reference.

11. Answering paragraphs 39, 40, 41, 42 and 43, plaintiff denies each and all of the allegations contained therein.

12. Answering paragraph 44, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 43 and they are incorporated by this reference.

13. Answering paragraphs 45, 46 and 47, plaintiff denies each and all of the allegations contained therein.

14. Answering paragraph 48, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 47 and they are incorporated by this reference.

15. Answering paragraphs 49, 50 and 51, plaintiff denies each and all of the allegations contained therein.

16. Answering paragraph 52, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 51 and they are incorporated herein.

17. Answering paragraphs 53, 54 and 55, plaintiff denies each and all of the allegations contained therein.

18. Answering paragraph 56, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 55 and they are incorporated herein.

19. Answering paragraphs 57, 58, 59 and 60, plaintiff denies each and all of the allegations contained therein.

20. Answering paragraph 61, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 60 and they are incorporated by this reference.

21. Answering paragraphs 62, 63, 64, 65 and 66, plaintiff denies each and all of the allegations contained therein.

FIRST AFFIRMATIVE DEFENSE

(Failure To State Facts Sufficient To Constitute A Claim)

22. Neither the first, second, third, fourth, fifth, sixth nor seventh counterclaim states facts sufficient to constitute a cause of action against plaintiff.

SECOND AFFIRMATIVE DEFENSE

(Unclean Hands)

23. Counterclaimants are guilty of unclean hands and are therefore barred from bringing the alleged counterclaims.

THIRD AFFIRMATIVE DEFENSE

(Laches)

24. Counterclaimants are guilty of laches and are therefore barred from bringing the alleged counterclaims.

FOURTH AFFIRMATIVE DEFENSE

(Estoppel)

25. Counterclaimants are estopped to assert the alleged counterclaims.

FIFTH AFFIRMATIVE DEFENSE

(Waiver)

26. Counterclaimants have waived their right to bring the alleged counterclaims.

SIXTH AFFIRMATIVE DEFENSE

(Justification)

27. All of plaintiff's actions which purportedly form the basis for the alleged counterclaims were justified.

WHEREFORE, plaintiff and counterdefendant prays judgment as follows:

1. That counterclaimants take nothing by their counterclaims on file herein;
2. For costs of suit herein; and
3. For such other and further relief as to the Court may seem just and proper.

DATED: August 27, 1984

Joel E. Boxer
Dorothy Wolpert
NUTTER, BIRD, MARELLA,
BOXER, WOLPERT & MATZ
A Professional Corporation

By Dorothy Wolpert
Dorothy Wolpert
Attorneys for Plaintiff
and Counterdefendant

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Case No: 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIMS

REPLY TO COUNTERCLAIMS

Plaintiff and counterdefendant Universal City Studios, Inc., ("plaintiff") answers the counterclaims of defendants Professional Real Estate Investors, Inc., and Kenneth F. Irwin as follows:

1. In the event that any of the allegations denominated "affirmative defenses" at paragraphs 14, 15, 16 or 17, and incorporated by reference at paragraphs 33, 38, 44, 48, 52, 56 and 61, of defendant's pleading herein should, pursuant to Federal Rule of Civil Procedure 8(c) be treated at any time as counterclaims, rather than affirmative defenses, plaintiff denies each and all of the allegations contained in paragraphs 14, 15, 16 and 17.

2. Answering paragraph 18, plaintiff denies each and all of the allegations contained therein.

3. Answering paragraph 19, plaintiff denies each and all of the allegations contained therein.

4. Answering paragraph 20, plaintiff admits that it transacts business, is licensed to do business and is doing

business in the Central District of California. Except as specifically admitted, plaintiff denies each and all of the allegations of paragraph 20.

5. Plaintiff admits the allegations of paragraphs 21, 22, 23, 24, 25, 26, 27, 28, 29 and 30.

6. Answering paragraph 31, plaintiff denies each and all of the allegations contained therein.

7. Answering paragraph 32, plaintiff denies each and all of the allegations contained therein.

8. Answering paragraph 33, plaintiff denies each and all of the allegations contained therein and incorporated therein by reference.

9. Answering paragraphs 34, 35, 36 and 37, plaintiff denies each and all of the allegations contained therein.

10. Answering paragraph 38, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 37 and they are incorporated by this reference.

11. Answering paragraphs 39, 40, 41, 42 and 43, plaintiff denies each and all of the allegations contained therein.

12. Answering paragraph 44, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 43 and they are incorporated by this reference.

13. Answering paragraph 45, 46 and 47, plaintiff denies each and all of the allegations contained therein.

14. Answering paragraph 48, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 47 and they are incorporated by this reference.

15. Answering paragraphs 49, 50 and 51, plaintiff denies each and all of the allegations contained therein.

16. Answering paragraph 52, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 51 and they are incorporated herein.

17. Answering paragraphs 53, 54 and 55, plaintiff denies each and all of the allegations contained therein.

18. Answering paragraph 56, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 55 and they are incorporated herein.

19. Answering paragraphs 57, 58, 59 and 60, plaintiff denies each and all of the allegations contained therein.

20. Answering paragraph 61, plaintiff realleges as if fully set forth herein its responses to paragraphs 14 through 60 and they are incorporated by this reference.

21. Answering paragraphs 62, 63, 64, 65 and 66, plaintiff denies each and all of the allegations contained therein.

FIRST AFFIRMATIVE DEFENSE
(Failure To State Facts Sufficient
To Constitute A Claim)

22. Neither the first, second, third, fourth, fifth, sixth nor seventh counterclaim states facts sufficient to constitute a cause of action against plaintiff.

SECOND AFFIRMATIVE DEFENSE
(Unclean Hands)

23. Counterclaimants are guilty of unclean hands and are therefore barred from bringing the alleged counterclaims.

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(Laches)

24. Counterclaimants are guilty of laches and are therefore barred from bringing the alleged counterclaims.

FOURTH AFFIRMATIVE DEFENSE
(Estoppel)

25. Counterclaimants are estopped to assert the alleged counterclaims.

FIFTH AFFIRMATIVE DEFENSE
(Waiver)

26. Counterclaimants have waived their right to bring the alleged counterclaims.

SIXTH AFFIRMATIVE DEFENSE
(Justification)

27. All of plaintiff's actions which purportedly form the basis for the alleged counterclaims were justified.

WHEREFORE, plaintiff and counterdefendant prays judgment as follows:

1. That counterclaimants take nothing by their counterclaims on file herein;
2. For costs of suit herein; and
3. For such other and further relief as to the Court may seem just and proper.

DATED: August 27, 1984

Joel E. Boxer
Dorothy Wolpert
NUTTER, BIRD, MARELLA,
BOXER, WOLPERT & MATZ
A Professional Corporation

By Dorothy Wolpert
Dorothy Wolpert
Attorneys for Plaintiff
and Counterdefendant

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIMS

NOTICE OF MOTION AND MOTION TO COMPEL
PLAINTIFFS AND COUNTER-DEFENDANTS TO
PRODUCE DOCUMENTS AND FOR EXPENSES AND
ATTORNEYS' FEES; MEMORANDUM IN SUPPORT; AND
DECLARATION OF NON-COMPLIANCE

Hearing: September 9, 1985

10:00 a.m.

Courtroom 23

FILED

AUG 13 1985

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

PLEASE TAKE NOTICE that on September 9, 1985 at
10:00 a.m. or as soon thereafter as counsel may be heard,

defendants and counterclaimants, Professional Real Estate Investors, Inc., and Mr. Kenneth F. Irwin (collectively referred to as "Irwin"), will move the Court for an order pursuant to Rule 37 of the Federal Rules of Civil Procedure, imposing on plaintiffs and counterdefendants, Columbia Pictures Industries, Inc., *et al.*, (collectively referred to as "plaintiffs"), to produce for inspection and copying the documents requested in Irwin's Request for Production of Documents, served on January 7, 1985, and requiring plaintiffs and plaintiffs' counsel to pay Irwin's expenses and attorney's fees incurred in connection with this motion and the Rule 7.15.1 meeting of counsel as a result of plaintiffs' failures to cooperate in discovery.

Dated: August 8, 1985

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW
CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By: _____
Jeffrey W. King
Attorneys for Defendants and Counter-
claimants Professional Real Estate
Investors, Inc., and Kenneth F. Irwin

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

ORDER TO COMPEL PLAINTIFFS TO PRODUCE
DOCUMENTS AND TO PAY DEFENDANTS EXPENSES
AND ATTORNEYS' FEES

FILED

AUG 13 1985

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Upon consideration of the Motion to Compel Production of Documents filed by defendants and counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin to compel plaintiffs and counterdefendants Columbia Pictures Industries, Inc., *et al.*, to produce documents requested in defendants' January 7, 1985 Request for Production of Documents, the parties' contentions on the issues, and arguments of counsel, it is hereby

ORDERED that:

- (1) Plaintiffs produce the documents requested in defendants' Request for Production of Documents Nos. 1-40 on or before _____, 1985 at the law offices at Michael J. Dennis Law Corporation, 510 West Sixth Street, Suite 910, Los Angeles, California;
- (2) Plaintiffs pay defendants' reasonable expenses and attorney fees incurred in connection with this motion;
- (3) Plaintiffs pay defendants' reasonable expenses and attorneys fees incurred in attending the Rule 7.15.1 meeting of counsel; and
- (4) Defendants submit to this Court, within 20 days of the date of this Order, an application for its reasonable expenses and attorneys fees incurred in connection with this motion and the Rule 7.15.1 meeting of counsel.

DATE

U.S. DISTRICT JUDGE

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

MEMORANDUM IN SUPPORT OF MOTION TO COMPEL
PLAINTIFFS AND COUNTERDEFENDANTS TO
PRODUCE DOCUMENTS AND FOR EXPENSES AND
ATTORNEYS FEES

Hearing Date: September 9, 1985

Hearing Time: 10:00 Am

Hearing Place: Court Room 23

[Table of Contents omitted in this printing]

[Table of Authorities omitted in this printing]

MEMORANDUM IN SUPPORT OF MOTION TO COMPEL
PLAINTIFFS AND COUNTERDEFENDANTS TO
PRODUCE DOCUMENTS

This memorandum is respectfully submitted on behalf of defendants and counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively referred to as "Irwin"), in support of their motion to compel discovery pursuant to Rule 37 of the Federal Rules of Civil Procedure.

INTRODUCTION

Plaintiffs and counterdefendants Columbia Pictures Industries, Inc., *et al.* (collectively referred to as "plaintiffs"), by admission of their own counsel, have refused to cooperate in discovery. Irwin served a set of document requests on each of the plaintiffs. The plaintiffs have refused to produce any documents responsive to twenty-eight of Irwin's forty requests and refused in part to produce documents responsive to the remaining twelve requests. In fact plaintiffs have produced documents responsive to only eight of Irwin's requests and even for those requests the production was not complete. Moreover, plaintiffs failed to produce any documents for almost four months after their responses to Irwin's January 7, 1985 document request were due. Now, over six months after plaintiffs' responses were due, all eight plaintiffs together have produced only ninety-six documents, totally only 203 pages.¹

Of the ninety-six documents produced, eighty-seven are copyright registrations or assignments, five are copies of Irwin's advertisements, one is a letter from plaintiffs' counsel to Irwin, and three are copyright notice labels

¹ In contrast, Irwin produced 2978 pages of documents in response to plaintiffs' document request. Although Irwin's production does contain some duplicates, it is far more extensive than the production by all eight plaintiffs together.

from two videotapes and one videodisc. One plaintiff (CBS) failed to produce any documents and another (Universal City Studios) produced only one.

A review of plaintiffs' objections and responses demonstrates that the objections are meritless and the responses inadequate. First, plaintiffs objected to all of the document requests on the basis of attorney-client privilege and the attorney work product doctrine, but failed to provide sufficient information to assess the validity of these objections. Accordingly, there is no evidence in the record supporting plaintiffs' claim of privilege.

Second, plaintiffs refused to produce documents "supporting or relating in any way to" allegations in plaintiffs' complaint (Document Requests 2-16, 18, 40) on the grounds, among others, of irrelevancy and vagueness. The frivolity of plaintiffs' objections is amply demonstrated by the fact that those requests dealt with the very issues raised by plaintiffs' complaint. In fact, many of the requests actually quote the complaint.

Third, plaintiffs refused to produce any documents relating to the counterclaims on the grounds that those requests are overbroad, seek confidential or proprietary information, and are irrelevant. The information requested, however, is narrowly tailored to Irwin's counterclaims for copyright misuse, violations of the antitrust laws, or other unfair trade practices. Similarly, plaintiffs refused to produce most documents relating to the affirmative defenses. (They did produce three copyright notice labels.) Irwin is entitled to discovery on its affirmative defenses and counterclaims.

Fourth, plaintiffs have even failed to produce most of the documents to which they raised no objections. Counsel for Irwin has, on numerous occasions, sought to meet with plaintiffs' counsel to attempt to resolve this dispute without involving the Court. In spite of repeated requests from March through July 1985, the meeting with counsel re-

quired by Local Rules 7.15.1 did not take place until July 31, 1985. Even then, plaintiffs' counsel was unprepared and initially refused to discuss these discovery matters. Further, plaintiffs' counsel was required by Local Rule 7.15.4 to provide to counsel for Irwin, within seven days of the meeting, its contentions on discovery to enable counsel for Irwin to prepare the required stipulation. Yet, almost two weeks after the meeting, plaintiffs' counsel has failed to supply this.

An examination of plaintiffs' objections reveals that they lack merit and were interposed solely to prevent Irwin from securing the discovery to which it is entitled under Rule 34 of the Federal Rules of Civil Procedure.

STATEMENT OF FACTS

The eight plaintiffs in this action filed suit on April 25, 1983, alleging copyright infringement by Irwin. Plaintiffs' basic contentions are that Irwin operated a resort facility, La Mancha Private Club and Villas, and violated plaintiffs' copyrights in certain motion pictures by renting videodiscs of the motion pictures to the guests at Irwin's facilities. Inasmuch as rental of the videodiscs is acknowledged to be legal, plaintiffs contend that the playing of the videodiscs by the guests at La Mancha in the villas they rent constitutes "public performance." Accordingly, the basic issue raised by the complaint is whether guests at Irwin's La Mancha facilities are "publically performing" the videodiscs when they view the movies in the privacy of the villas they have rented. If viewing the videodiscs in the privacy of a villa is not "public performance," then plaintiffs' claims will fail.²

² In the "Joint Report of Early Meeting," the issue was stated as "whether any of the answering defendants' activities constitute unauthorized public performance of plaintiffs' copyrighted works." Inasmuch as no one contends that Irwin performs the works personally, the only performance contested is the playing of the videodiscs by guests at La Mancha in the privacy of the villas they have rented.

The parties agreed to several extensions of time for Irwin to answer the complaint to allow the parties to attempt to negotiate a settlement. Settlement was never reached, and on February 9, 1985, Irwin filed an answer to the complaint, along with affirmative defenses and counterclaims. The principal affirmative defenses and counterclaims revolved around plaintiffs' improper copyright notices and antitrust violations. After several extensions of time at plaintiffs' request, plaintiffs filed their answer to the counterclaims on August 27, 1984. At that time, plaintiffs noticed the deposition of Kenneth Irwin and served a request for production of documents. That deposition commenced in November, at which time Irwin produced the documents requested by plaintiffs. The deposition was continued and completed on January 15, 1985.

On January 7, 1985, Irwin served on each plaintiff a Request for Production of Documents Nos. 1-40.³ Plaintiffs

³ There were eight separate requests for production—one for each plaintiff—and eight separate responses. Copies of each request and the responses are attached as Exhibit 3 to this motion. The eight requests were identical except for one aspect. The complaint alleged for each plaintiff identical claims but in different paragraphs of the complaint. As a result, Irwin's requests are identical for each plaintiff except that the paragraph references to the complaint differ for each plaintiff and, obviously, the name reference to each plaintiff differs.

In addition, plaintiffs did not repeat the document requests in their objections. As a convenience to the Court, Irwin has prepared a consolidated request and response which is attached as Exhibit 1 to this motion. This consolidated list also contains, to the degree Irwin can determine, identification of what, if any, documents have been produced to date in response to each request. The consolidated request and responses are for Columbia Pictures. As discussed above, however, the request and responses for the other seven plaintiffs are identical except for paragraph references to the complaint.

Finally, since a number of requests quote or refer to the complaint, and the other requests relate to Irwin's affirmative defenses and counterclaims, the complaint and the Answer, Affirmative Defenses and Counterclaims are attached as Exhibit 4 to this motion.

served objections to all 40 document requests on February 7, 1985. Plaintiffs did not produce any documents with the objections. Plaintiffs did state in their objections that for twelve of the forty requests, and to the extent not objected to, "plaintiff will afford defendants a reasonable opportunity to inspect and copy the documents." Yet, six months after production was required, plaintiffs have produced only 96 documents in response to eight of the twelve requests and have failed to produce complete responses to any of those eight requests.

Several days after Irwin received plaintiffs' objections, local counsel for Irwin contacted plaintiffs' counsel and requested plaintiffs to identify the number of documents they were willing to produce and the location where they would produce them.⁴ Plaintiffs, however, failed to respond to that request. Accordingly, on March 1, 1985, counsel for Irwin sent to plaintiffs a letter specifically requesting a meeting under Local Rule 7.15.1 to resolve the discovery dispute. The letter was sent by overnight mail. On March 12, ten days after plaintiffs received Irwin's request for the Rule 7 meeting, Irwin's counsel sent another letter by express mail reiterating the earlier request for the discovery conference.

Under the Local Rules, plaintiffs' counsel was obligated to meet within ten days of service of the March 1 letter. Specifically, Local Rule 7.15.1 requires that:

[p]rior to the filing of any motion relating to discovery, . . . counsel for the parties shall meet in person in a good-faith effort to eliminate the necessity for hearing the motion or to eliminate as many of the disputes as possible. . . . Unless relieved by order of the court upon good cause

⁴ The facts described in this memorandum are supported by the "Declaration of Non-Cooperation by the Opposing Party" attached hereto as Attachment 2.

shown or agreement of the parties, counsel for the opposing parties shall meet with counsel for the moving party within ten (10) days of service upon him of a letter requesting such meeting and specifying the terms of the discovery order to be sought.

Rather than setting up the meeting, or attempting to discuss this matter by telephone, plaintiffs' counsel sent a letter by regular mail on March 13, 1985, stating that counsel would be available for a Rule 7 meeting during the week of March 25, 1985—more than three weeks after the meeting had originally been requested and almost two weeks after the deadline for holding the meeting pursuant to the Local Rules. In spite of repeated attempts, however, parties were not able to arrange the meeting at that time.

Counsel for Irwin repeatedly telephoned plaintiffs' counsel in an attempt to resolve the pending discovery disputes. Finally, on April 16, 1985, counsel were able to discuss the dispute by telephone. In an attempt to "eliminate as many of the disputes as possible," as required by Local Rule 7.15.1, Irwin reiterated the earlier request that plaintiffs identify the number of documents that plaintiffs were willing to produce voluntarily and that plaintiffs produce these documents before a motion was filed with this Court. Plaintiffs' counsel, however, stated that she did not know how many documents there were, indicating that more than two months after production was required, plaintiffs had not yet even attempted to identify documents responsive to the requests. Plaintiffs' counsel indicated that there might be as few as a "box or two of documents" that plaintiffs were willing to produce at that time. On April 24, 1985, counsel once again conferred by telephone and agreed that plaintiffs would send to Irwin by Friday, May 17, 1985, all of the documents that plaintiffs were willing to produce in response to the January 7, 1985 document request.

By letter dated May 14, 1985, plaintiffs forwarded 84 documents "responsive to request Nos. 2, 3, 4, 5, 8, 9, 12, 15, and 16." Plaintiffs' counsel asserted that copying and forwarding the documents to counsel for Irwin "has made [production] an arduous and more difficult job," in spite of the fact that only 84 documents consisting of 181 pages were produced at that time. Irwin had previously accorded plaintiffs, the courtesy of copying and forwarding a far greater number of documents.

On May 21, 1985, Irwin again sent a letter to plaintiffs reaffirming the understanding that *all* the documents plaintiffs had not objected to producing were to be produced by May 17, 1985. By letter dated May 30, 1985, plaintiffs forwarded a few additional documents and provided excerpts from two of plaintiffs' license agreements, but failed to complete production. Counsel once again conferred by telephone regarding Irwin's January 7, 1985 document request. Although plaintiffs had been in violation of Fed. R. Civ. P. 34(b) (requiring production within 30 days) for more than four months at that point, plaintiffs would not agree to complete production by any specific date. Plaintiffs stated that they declined to establish a new date by which production would be completed for fear that plaintiffs would once again fail to comply with any new deadline. In discussing plaintiffs' recalcitrance, plaintiffs' counsel expressly stated that her clients were not cooperating and were not producing the documents.

Unable to obtain the documents which plaintiffs had not even objected to producing, Irwin sought to set up the Rule 7 meeting to discuss the discovery problems and, at a minimum, to allow Irwin to move forward with a motion to compel. In early June, 1985, plaintiffs' counsel informed counsel for Irwin that she would be in Washington, D.C. and that the Rule 7 meeting could take place during her visit. Irwin's counsel agreed and counsel for plaintiffs stated that she would provide Irwin with a schedule. Nothing further was heard from plaintiffs until plaintiffs'

counsel sent a letter in late June, informing Irwin that she was unable to arrange the meeting while in Washington. That letter was sent after plaintiffs' counsel had returned to the West Coast.

This Court ordered a pre-trial conference, on July 5, 1985. On July 24, 1985, counsel for Irwin telephoned plaintiffs' counsel and agreed to conduct the Rule 7 meeting on July 31, 1985.⁵ Plaintiffs' counsel, however, arrived at the meeting totally unprepared to discuss their objections and refused to discuss their objections to the discovery requests. Only at the insistence of counsel for Irwin would plaintiffs' counsel discuss the matter. Even then, however, plaintiffs' counsel placed a fifteen minute time limit on the discussion and terminated the meeting before the matter had been fully discussed. The discussion proved virtually fruitless. Plaintiffs' counsel essentially failed to commit to any additional production, stating only that they would "reconsider" certain objections and the requests. Irwin, in contrast, agreed to modify several requests to meet plaintiffs' concerns. Plaintiffs left the meeting but committed themselves to respond to the meeting by early the following week. Now, almost two full weeks after the meeting, and a week beyond the seven days provided for under Local Rule 7.15.4, plaintiffs have yet to respond as agreed or provide any further clarification or documents.

Plaintiffs have refused to comply with the explicit requirements of the Federal Rules of Civil Procedure and Local Rules of this Court regarding production. Because plaintiffs have refused to cooperate and to provide Irwin the opportunity for discovery to which Irwin is entitled under the Federal Rules of Civil Procedure, it has been necessary to request this Court to intervene where reason and patience have failed.

⁵ Irwin set the meeting up in conjunction with the meeting of counsel required under Local Rule 9.4.

ARGUMENT

I.

PLAINTIFFS' UNSUPPORTED BOILERPLATE OBJECTIONS ARE MERITLESS

Plaintiffs' assert a large number of frivolous and boilerplate objections. Specifically, plaintiffs raise two general objections to all the document requests: (1) the requests call for information covered by the attorney-client privilege and the work product doctrine;⁶ and (2) the requests are unduly burdensome. In addition, they raise five other objections: (3) the requests seek confidential or proprietary information (applies to sixteen of the requests); (4) the requests call for "irrelevant" information (applies to twenty-one of the requests); (5) the requests are "vague, overbroad and ambiguous" (applies to thirty-two of the requests); (6) the requests call for documents already in the possession of Irwin (applies to five of the requests); and (7) the requests are "premature" (applies to two requests). Plaintiffs also refuse to produce the documents at a single location or even in this district. Rather, plaintiffs intend to produce the documents at various locations that are convenient to them and are located in several states including California and New York. Finally, plaintiffs have failed to even produce the vast majority of documents to which they did not raise an objection.

Plaintiffs' objections and refusals to produce cannot withstand scrutiny. Plaintiffs' claims of "privilege," and

⁶ Plaintiffs also object to all of Irwin's document requests to the extent that each request requires the production of information not within plaintiffs' possession, custody, or control. See General Objection No. 2. The first paragraph of Irwin's requests, however, specifically states that plaintiffs are requested only "to produce and make available for copying, all documents and things requested below *that are in its possession, custody or control.*" Hence, plaintiffs' General Objection No. 2 is meritless and need not be addressed.

"undue burden" are not supported by the law or the facts. Similarly, plaintiffs' incantations of "irrelevancy," "vagueness" and similar protests cannot hide the fact that Irwin's requests are directed at the three principal issues in this case: the allegations in plaintiffs' complaint; Irwin's affirmative defense that plaintiffs' misused their copyrights; and Irwin's defenses and counterclaims alleging that plaintiffs violated the antitrust laws. These are proper issues for discovery and plaintiffs' resistance is unjustified.

Plaintiffs' broad and general objections are discussed below followed by a discussion of Irwin's individual requests and the inapplicability of plaintiffs' objections. Finally, the impropriety of plaintiffs' insistence that the documents be produced at various locations, some outside the district, and the need for an award of costs and attorneys' fees is explained.

II.

PLAINTIFFS' ASSERTION OF ATTORNEY-CLIENT PRIVILEGE AND WORK PRODUCT IMMUNITY ARE UNSUBSTANTIATED

Plaintiffs claim "privilege" and "work product" but fail to explain or provide any information to evaluate the merits of their objections. Plaintiffs object to all of Irwin's document requests to the extent they require production of documents that are covered by the attorney-client privilege and the work product doctrine. See Plaintiffs' General Objection 1. Plaintiffs' bald claims of attorney-client privilege and work product doctrine, however, cannot be sustained. It is axiomatic that a party asserting attorney-client privilege must provide enough information about the documents to allow the claim of privilege to be evaluated. Specifically, "[T]he [objecting] party must supply the court with sufficient information from which it could reasonably conclude that the communication: (1) concerned the seeking of legal advice; (2) was between a client and an attorney

acting in his professional capacity; (3) was related to legal matters; and (4) is at the client's instance permanently protected." *Federal Trade Commission v. Shaffner*, 626 F.2d 32, 37 (7th Cir. 1980). Plaintiffs have not identified a single document as qualifying for this privilege. Moreover, they have failed to support their objections with any facts.

When an objecting party fails to meet its burden regarding the claim of attorney-client privilege, the objecting party should be compelled to produce the documents or to produce the information sufficient to sustain the privilege. Furthermore, throughout attempts to resolve this discovery dispute, the plaintiffs have steadfastly refused to supplement their original blanket claim of privilege. Counsel for Irwin requested plaintiffs' counsel for information sufficient to support the claim of privilege by letter on March 1, 1985, and again repeatedly throughout April, May, June, and July. No information was provided. Finally, on July 31, 1985 plaintiffs' counsel agreed to identify some, but not all, of the allegedly privileged documents. Although inadequate, plaintiffs failed to make even this half-hearted attempt; as yet, plaintiffs have supplied *no* information to support their claims of attorney-client privilege.

Similarly, the objecting party bears the burden of demonstrating that the documents fall within the scope of work product immunity. In *re Uranium Antitrust Litigation*, 552 F. Supp. 517 (N.D. Ill. 1982). In the *Uranium Antitrust Litigation* case, each party objected to the other's document requests on a blanket assertion of either attorney-client privilege or work product immunity. Each filed a motion to compel production of documents. The court found that the parties' document lists, which contained only cryptic statements as to document content and from whom and to whom documents were sent, were "totally inadequate" to sustain the assertions of attorney-client privilege or work product immunity. Accordingly, the court ordered production of all of the documents. Only

if specific documents were described with particularity and were accompanied by a particularized assertion of the privilege or immunity would the court be willing to reconsider the claim of privilege with respect to particular documents. *Id.* at 518.

Plaintiffs here have not even provided as much information as was provided in *Uranium Antitrust Litigation* and found inadequate. Plaintiffs have failed to provide *any* of the information necessary to allow this court to assess adequately plaintiffs' assertions of work product immunity. Without such information plaintiffs have not met their burden of establishing the immunity and their objections are, therefore, meritless.

III.

PLAINTIFFS HAVE FAILED TO SHOW THAT THE DOCUMENT REQUESTS ARE UNDULY BURDENSOME

Plaintiffs object to all of Irwin's document requests on the ground of burden. Plaintiffs failed, however, to explain what that burden is or why it is undue. In order to support their burden objection, plaintiffs must establish, with respect to each document request (1) the burden involved and (2) that the burden outweighs Irwin's need for the information. *Xerox Corp. v. International Business Mach. Corp.*, 399 F. Supp. 451, 456 (S.D.N.Y. 1975).

A review of the document requests themselves reveals the lack of basis for the objection. First, this is Irwin's first discovery request in this litigation. Second, plaintiffs are the *only* source of information on the vast majority of the requests, particularly those addressing misuse of plaintiffs' copyrights and the antitrust counterclaims. (See Arguments V and VI, *infra*.) Finally, no burden is involved, particularly in view of the needs of the case. Irwin is entitled to discovery on their affirmative defenses and antitrust counterclaims. These issues also involve a significant public interest in the scope of the monopoly

granted the copyright owner by the copyright law. The basis for plaintiffs' claim of undue burden is even more baffling in that plaintiffs' counsel claims the documents would fit in "one or two boxes." The needs of the case are substantial, and the burden virtually non-existent.

Even where discovery is burdensome or expensive, and it is not in this case, this does not permit a party to escape the responsibility of responding. "If the interrogatories are relevant, the fact that they involve work, research and expense is not sufficient to render them objectionable." *United States v. NYSCO Laboratories, Inc.*, 26 F.R.D. 159, 161 (E.D.N.Y. 1960). For example, in *Alexander v. Rizzo*, 50 F.R.D. 374 (E.D. Pa. 1970), the court recognized the obvious necessity of the information and flatly rejected the argument that "the time needed to complete discovery . . . would 'require hundreds of employees of the Police Department many years of man hours to unearth the answers to the interrogatories and other discovery procedures pursued by counsel.'" *Id.* at 376.

Plaintiffs' alleged burden in the present case is *de minimis* by comparison. Plaintiffs' weak attempt to avoid discovery by an unsupported claim of burden should be denied in light of the obvious importance of the requested discovery to Irwin's affirmative defenses and counterclaims. Moreover, this is not an instance where a boilerplate objection has been raised merely to preserve the objection. Rather, plaintiffs have produced only 96 documents to date. Eighty-seven of them are basic copyright registrations that actually should have been produced at the early meeting of counsel pursuant to Local Rule 6.⁷ Of the remaining nine documents, five are Irwin's own advertisements that Irwin previously produced to plaintiffs. One of the four remaining documents is a protest letter from plaintiffs to

⁷ Irwin has filed a Motion for Sanctions which fully explains plaintiffs' failures to follow the local and federal rules concerning pre-trial preparation.

Irwin. The three remaining documents are labels from two videotapes and a videodisc for two Walt Disney films. Accordingly, plaintiffs have failed to provide any meaningful discovery.

IV.

PLAINTIFFS' REFUSAL TO PRODUCE DOCUMENTS THAT RELATE DIRECTLY TO THE ALLEGATIONS IN PLAINTIFFS' COMPLAINT IS BASELESS

(Document Request Nos. 1-19, 37 and 40)

Plaintiffs have objected to the document requests concerning the contentions in the complaint for the most part on the ground that the documents are not relevant and the requests are "overbroad, vague and ambiguous." Plaintiffs' allegations that the documents sought are irrelevant to this litigation are difficult to fathom. Rule 26(b)(1) of the Federal Rules of Civil Procedure specifically provides that Irwin is entitled to the requested discovery:

Parties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action, whether it relates to the claim or defense of the party seeking discovery or to the claim or defenses of any other party.

As the court stated in *Cornaglia v. Ricciardi*, 63 F.R.D. 4116, 419 (E.D. Pa. 1974), "[i]t is beyond question that defendant is entitled to discovery of the facts upon which the plaintiff's claim . . . is founded." See also *Sargent-Welch Scientific Co. v. Ventron Corp.*, 59 F.R.D. 500 (N.D. Ill. 1973) (both the factual basis and the source of allegations of the pleadings are discoverable). In *RCA Mfg. Co. v. Decca Records*, 1 F.R.D. 433, 435 (S.D.N.Y. 1940), one party objected to several interrogatories because the answers would require extensive research, investigation and expense. The court, however, found that "the interroga-

tories sought details of matters alleged in the answer and, having pleaded it, it may be assumed that the [objecting party] is in a position to furnish such details." Each of the allegations in plaintiffs' complaint are facts plaintiffs felt were relevant when they filed the complaint. No explanation has been given by plaintiffs as to why information that was relevant to plaintiffs' claims when filed is not relevant during discovery.

Plaintiffs' objection that the requests are "vague, overbroad and ambiguous" is similarly disingenuous. These requests ask specifically for documents "supporting and relating" to each basic contention in plaintiffs' complaint. Nearly all of the requests identify a specific paragraph from the complaint and most actually quote the complaint. The requests, therefore, are only as "vague, overbroad and ambiguous" as are the contentions in plaintiffs' complaint. A brief review of the requests and the responses amply demonstrates the frivolity of plaintiffs' objections.

A. Information Concerning Irwin's La Mancha Facilities

(Document Request Nos. 2-5 and 11)*

Request Nos. 2-5 seek information relating to plaintiffs' allegation concerning Irwin's La Mancha resort and the alleged infringing activity. Request No. 11 seeks to discern the basis of plaintiffs' contention as to the source of Irwin's videodisc inventory. Each of these requests relates to specific allegations in plaintiffs' pleadings, and, in fact, each quote the actual contention in the complaint.

Plaintiffs object to these requests on the grounds that they seek documents that are in Irwin's possession." The

* Plaintiffs produced, ostensibly pursuant to these requests, five of Irwin's advertisements.

* Plaintiffs also object to request No. 11 because Irwin "admitted acquiring possession of the videodiscs," and therefore the request is

objection is frivolous. As noted above, Fed. R. Civ. P. 26(b)(1) gives Irwin a right to discover such information from plaintiffs—a right that is not qualified by the extent of Irwin's possession of that information. In *Radzik v. Chicagoland Recreational Vehicle Dealers Ass'n, Inc.*, 15 F.R. Serv. 2d 1606, 1607 (N.D. Ill. 1972), the court stated that "the fact that the requested information is equally accessible to the defendant, even if true, would not support the plaintiffs' objection since the defendant is entitled to learn in advance of trial what the plaintiff contends are the facts so that the defendant will be able to ascertain what he must meet at trial." *Accord United States v. Purdome*, 30 F.R.D. 338 (W.D. Mo. 1962). Furthermore, even though both parties may have a document, the two copies may not be identical. Discovery allows a party to find out if a document has been altered or if comments have been added to it. Thus, even were Irwin to have access to all the requested information, and they do not, plaintiffs would not be excused from complying with the discovery requests.

The purpose of discovery is to make sure both parties have access to a complete set of information. Plaintiffs' assertion that Irwin has the documents that support plaintiffs' allegations is, at best, highly speculative. At worst, it is simply incorrect. Nor have plaintiffs ordered one scintilla of evidence to support that objection. Irwin has a right to find out through the discovery process what information plaintiffs have to support their allegations.

B. Information Concerning the Allegation that Irwin Infringed Plaintiffs' Copyright by Conducting Public Performances of Their Works

(Document Request Nos. 8, 9, 10, 13, 14, 15)¹⁰

Surprisingly, plaintiffs have failed to produce documents supporting their basic contention that the playing of vi-

irrelevant. Plaintiffs have not yet formally stated whether they claim Irwin obtained possession of illegitimate videodiscs and this request seeks that information.

¹⁰ No documents appear to have been produced by plaintiffs pursuant

deodiscs in the villas rented by Irwin's guests at Irwin's La-Mancha facility constituted "public performance" in violation of plaintiffs' copyrights. The clearest, most understandable way to gain the facts and sources of these allegations was to ask for the documents that supported specific contentions in the complaint, and that is what Irwin has done.

Plaintiffs object to the request concerning the basis of these allegations on the grounds that requests are "overbroad, vague and ambiguous." It is incomprehensible how plaintiffs could contend that these requests, incorporating verbatim plaintiffs' own allegations, are vague, ambiguous, or overbroad. Plaintiffs certainly understood the meaning of the quoted phrases well enough to include them in their complaint and it can be assumed that plaintiffs understand them now as well.

Plaintiffs contended at the Rule 7 meeting that the basis of plaintiffs' objection is that the requests are overbroad because they seek production of documents "relating to" the subject matter of each request—a term plaintiffs now contend sweeps too broadly. The contention is ludicrous for two reasons. First, plaintiffs employed even broader language—"evidence, *relate to* or *refer to*"—in their requests to Irwin. Having made requests that are, if anything, broader than Irwin's, plaintiffs should not now be heard to complain about the breadth of Irwin's requests. Second, Irwin uses the language "relating to," which plaintiffs claim so offensive, throughout the request for documents. Yet, plaintiffs find it entirely unobjectionable with respect to request Nos. 1-5, 10-12, and 17. This, too underscores plaintiffs' bad faith.

to these requests. For requests 8, 9 and 15, plaintiff indicated that they would produce documents "to the extent not objectionable. . . ." To date, however, no documents have been produced.

C. Plaintiffs' Alleged Injury

(Document Request No. 10 and 17)¹¹

Plaintiffs have refused to produce documents responsive to Irwin's request Nos. 10 and 17, relating to plaintiffs' alleged injury on the grounds that the requests are premature. Request No. 10 seeks information supporting the claim in paragraph 19 of plaintiffs' complaint that they have been injured and damaged. Similarly, request No. 17 seeks information supporting the claim in paragraph 25 of plaintiffs' complaint that they have been and will be damaged.

In a copyright infringement action, plaintiffs are not entitled to ask for information on damages because of the fear that the suit may have been undertaken solely to gain information about a competitor's financial status. See *Columbia Pictures Corp. v. Rogers*, 81 F. Supp. 580 (S.D.W.V. 1949). The same concerns about abuse, however, are not present when a defendant seeks information about a plaintiffs' alleged injury. Inasmuch as plaintiffs specifically alleged that they have been and continue to be damaged, these requests are appropriate.

D. Proof of Plaintiffs' Ownership of the Copyrights

(Document Request No. 12)

Plaintiffs have produced eighty-seven documents in response to this request. The responses, however, are not complete. They did not include certificates of registration or the necessary assignment papers to show plaintiffs were the owners of the copyrights for fifteen of the seventy-four films alleged to be infringed in this suit. The production, therefore, is either incomplete or plaintiffs are not in fact the owners of the fifteen films.

¹¹ Plaintiffs have not produced any documents in response to this request.

E. Proof that Irwin "Deliberately and Willfully" Violated Plaintiffs' Copyright

(Document Request No. 16)

Plaintiffs allege that Irwin deliberately and willfully violated their copyrights. The only document produced that may be responsive is a letter from plaintiffs' counsel to Irwin, protesting Irwin's rental of videodiscs at the La Mancha facilities, which was sent just prior to bring this suit. Plaintiffs, however, objected to this request as overbroad, vague and ambiguous. Accordingly, it is not known whether other documents exist that are responsive to the request. If other documents do exist that support or relate to this allegation, plaintiffs should produce these documents.

F. Basis of the Complaint

(Document Request Nos. 18 and 19)¹²

Irwin sought all documents used or referred to by plaintiffs in preparing the complaint. Plaintiffs objected on the basis that the request was "overbroad, vague and ambiguous," and sought irrelevant and proprietary information. The very documents used to prepare the complaint are clearly relevant. Similarly, the request is not "overbroad, vague and ambiguous." The requests are limited to documents used to prepare the complaint and documents which support or relate to the complaint. Furthermore, the requests are limited to documents "not already produced" pursuant to Irwin's other requests.¹³ Plaintiffs' litany of objections, therefore, has no substance.

¹² Plaintiffs produced no documents in response to this request.

¹³ Plaintiffs also claim that Request No. 19 calls for confidential and proprietary information." As explained more fully below (see Argument VI, *infra*), such an objection is not recognized by the courts.

G. General Background Information

(Document Request Nos. 1, 39 and 40)

Irwin requested organizational charts from the plaintiffs (Request No. 1) in order to help understand the copyright ownership issues (subsidiaries may own the copyright) and the antitrust issues. Irwin also requested documents concerning Irwin and Irwin's advertising (Request No. 37 and 40) in order to have all documents that may be used by plaintiffs at trial. Plaintiffs object to producing organizational charts, claiming them to be irrelevant. At the Rule 7 meeting, plaintiffs explained that many parts of plaintiffs' business did not deal with motion pictures or films. Accordingly, Irwin agreed to restrict Request No. 1 to that portion of plaintiffs' business dealing with motion pictures and film. Plaintiffs indicated they would reconsider their objection in light of that modification to the request, but plaintiffs have failed to provide any response since the meeting two weeks ago.

V.

PLAINTIFFS HAVE REFUSED TO PRODUCE DOCUMENTS RELATING TO IRWIN'S AFFIRMATIVE DEFENSES

(Document Request Nos. 6, 30 and 31)¹⁴

Plaintiffs have also objected to the three document requests relating to one of Irwin's affirmative defenses on grounds of irrelevancy and vagueness. Irwin alleged, as one of their affirmative defenses, that plaintiffs misused their copyrights by attempting to restrict viewing of videotapes and discs to "home use." More specifically, the copyright laws grant a copyright owner certain rights including the exclusive rights to "perform the copyrighted

¹⁴ Plaintiffs have produced three copyright labels responsive to these requests.

work publically." 17 U.S.C. § 106(4). The law defines public performance as a performance "at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." 17 U.S.C. § 101. The copyright owner cannot, however, stop non-public or private performances. The law does not limit a non-public or private performance to performances in the "home." Rather, the law defines "private" in terms of those who are in attendance: "a family and its social acquaintances. . . ." The attempts by plaintiffs to prevent all but home viewing is an attempt to broaden their copyright monopoly to all private performances outside the home—rights that are beyond what the law grants. This abuse of their copyrights is misuse.

Plaintiffs have attempted to perpetuate this misuse in a number of ways, including the notices used on videotapes and videodiscs. The notices Irwin has seen to date include strong language admonishing the viewer that only "home viewing" is permissible, that criminal and civil liability may be brought for non-home viewing. To support its threats, an FBI symbol is included on the warning.

Irwin sought information concerning plaintiffs' attempts to restrict non-public performances to "home viewing." Specifically, Request No. 6 sought the basis of plaintiffs' statement in paragraph 14 of the complaint that "exhibition is restricted by law to home use only." Request No. 30 sought documents concerning the restrictive notice, and Request No. 31 requested information on the use of the FBI symbol in conjunction with plaintiffs' restrictive notices on the videodiscs and videotapes.

Plaintiffs' refusal to produce documents relating to Irwin's affirmative defenses on grounds of irrelevancy are meritless and cannot be sustained. Discovery into affirmative defenses is permissible. For example, in *AM Int'l, Inc. v. Eastman Kodak Co.*, 100 F.R.D. 255 (N.D. Ill. 1981), a patent infringement suit, the defendant raised as affirm-

ative defenses and counterclaims non-infringement and antitrust violations. The court allowed defendants broad discovery against plaintiff into these issues. *Id.*; see also *Columbia Pictures Corp. v. Rogers*, 81 F. Supp. 580, 584-85 (S.D.W.V. 1949) (court required production of plaintiff's exhibitor agreements where defendants asserted as an affirmative defense that the agreements were illegal and therefore unenforceable). Irwin's requests for documents relating to the plaintiffs' labeling and restriction on non-public performance are likewise necessary to establish Irwin's affirmative defenses.

It is also difficult to understand how these three requests are "overbroad, vague, and ambiguous." These objections, in fact, highlight plaintiffs' bad faith in responding to Irwin's requests. For example, Request No. 6 encapsulates the allegation of paragraph 14 of plaintiffs' complaint—that "exhibition is restricted by law to home use only"—concisely and accurately. Yet, plaintiffs feign ignorance of its meaning, claiming it to be "vague, overbroad and ambiguous," although they wrote the allegation. The requests are not vague; plaintiffs are simply attempting to avoid responding. Irwin raised an affirmative defense concerning copyright misuse and are entitled to discovery on that affirmative defense.

VI.

PLAINTIFFS HAVE REFUSED TO PROVIDE ANY DOCUMENTS WITH RESPECT TO THE ANTITRUST COUNTERCLAIMS

(Document Request Nos. 20-29, 32-36, 38 and 39)¹⁵

Plaintiffs have objected to the document requests relating to Irwin's antitrust counterclaims, on the grounds that the information sought is not relevant, seeks confidential

¹⁵ Plaintiffs have refused and in fact have produced no documents responsive to these requests.

information, and, as usual, are "overbroad." Irwin's basic antitrust claim is that the plaintiffs individually and in concert with others have attempted to restrict the development of a rental market for videotapes and videodiscs, especially for use in hotels and resorts. Plaintiffs undertook this action in order to maintain a monopoly over the distribution of motion pictures to hotels, resorts and other facilities. Irwin was informed that plaintiffs restricted their licensed distributors from selling to businesses that rented videotapes and videodiscs.

To support these claims, Irwin sought documents showing communications, understandings and agreements among the plaintiffs and with other motion picture companies (Request Nos. 20, 23, 25-29, 34 and 35). Irwin also requested document concerning agreements between plaintiffs and others used to facilitate plaintiffs' scheme to monopolize the market. Specifically, Irwin sought documents concerning the distribution of plaintiffs' copyrighted works and, in particular, information on plaintiffs' licensing practices and policies, including any restrictions on resale or rental of tapes and discs (Request Nos. 7, 21, 22, 24, 32, 33 38). Finally, Irwin requested documents concerning attempts by plaintiffs to enforce their illegal scheme (Request No. 36) and the basis for plaintiffs' denying the allegations in the counterclaim (Request No. 39).

Plaintiffs' objection to these document requests that the information sought is irrelevant is not supported by the historically broad scope of discovery permitted by the federal courts in antitrust cases. Federal courts permit liberal discovery in antitrust cases because of the overriding public interest in the enforcement of the antitrust laws. *Goldinger v. Boron Oil Co.*, 60 F.R.D. 562, 564 (W.D. Pa. 1973).

For example, in *Banana Serv. Co. v. United Fruit Co.*, 15 F.R.D. 106 (D. Mass. 1953), one party objected to the other's discovery requests because it felt they were vague

and indefinite. The court, however, explained the practical reasons supporting the propriety of general requests in antitrust cases and found the interrogatories appropriate under the circumstances.

[The propounding party] knows only the general nature and type of information which it wants, not the exact answer which it is to receive. It cannot be required to phrase its inquiries with mathematical precision. The phrases used in some of these interrogatories may be somewhat general, but they appear to be such as to give defendants a reasonably clear indication of the information to be included in its answers.

Id. at 109; accord *Quemos Theatre Co., Inc. v. Warner Bros. Pictures, Inc.*, 35 F. Supp. 949, 950 (D.N.J. 1940) (the very nature of establishing an antitrust violation involves extensive circumstantial evidence and the spirit of the rules requires liberal construction for discovery purposes before trial).

It is axiomatic that a party has a right to obtain basic information relating to an alleged conspiracy in violation of the antitrust laws. In *In re Shopping Carts Antitrust Litigation*, 95 F.R.D. 299 (S.D.N.Y. 1982), for example, the court found that the following discovery requests were proper because they sought information necessary to identify all events and individuals involved in the conspiracy:

Identify each meeting, communication, or contact, directly or indirectly, between one or more of your officers, agents or employees and one or more officers, agents or employees of any competitor or defendant where there was any mention made of actual, proposed, suggested or recommended prices, price increases or decreases, price levels, bids to customers, customers, discounts, allowances, special discounts, rebates, bids, territories concerning shopping

carts or other terms or conditions of sale for shopping carts in the United States.

• • • •

[For each meeting, listed above] the dates, means of communications, place, participants, subject matter, substance, actions taken as a result and documents relating thereto.

Id. at 307 n.7.

Irwin's requests seek precisely the same type of information as the requests approved by the court in the *Shopping Cart* case concerning meetings and communications between or among plaintiffs and other persons. Irwin's requests concerning meetings, communications, and memoranda may produce information necessary to determine the extent of plaintiffs' intent to conspire and actual conspiracy. This information relates directly to the elements of Irwin's Section 1 Sherman Act antitrust claim. Documents showing or evidencing agreements, oral or written, telephone conversations, meetings, communications, or internal memoranda would provide circumstantial evidence of joint action or agreement necessary for proving a violation under Section 1 of the Sherman Act. Irwin's need for these documents mirrors the necessity the court found in the *Shopping Cart* case and the requests are therefore not irrelevant.

Similarly, Document Request Nos. 7, 21, 22, 24, 32, 33 and 38 ask for licensing agreements which may relate to the illegal extension of the plaintiffs' copyright. Irwin has been informed that plaintiffs, in their agreement with RCA to produce videodiscs, specifically prohibited RCA from knowingly selling the discs to anyone who will rent the discs. Thus, the licensing arrangements the plaintiffs have are necessary to determine if plaintiffs extended their control beyond what was actually granted by the copyright law. These requests are proper.

To illustrate, in *Columbia Pictures Corp. v. Rogers*, 81 F. Supp. 580 (S.D.W.V. 1944), the court ordered production of all of plaintiffs' copyright license agreements because they were pertinent to defendant's affirmative defense of misuse. See also *Diamond Crystal Salt Co. v. Package Masters Inc.*, 319 F. Supp. 911, 913 (D. Del. 1970) (in a patent misuse case, the court held that a list of requests for licenses and any negotiations with respect to licenses was relevant to the misuse claim). Irwin's requests are similarly proper and relevant. Plaintiffs cannot ignore Irwin's antitrust counterclaims by denying discovery.

Plaintiffs' objections that the requests are overbroad are also devoid of merit. These objections are surprising since Irwin's requests were drafted using a format suggested by the Antitrust section of the ABA. Several of the requests are virtually identical to the ABA's suggested requests. See *Antitrust Discovery Handbook* (ABA) (1980). Further, Irwin does not know the exact documents plaintiffs possess, have custody of, or control in relation to the counterclaim.

Finally, plaintiffs object to most of these document requests on the ground that documents responsive to those requests contain information that is "confidential or proprietary." Plaintiffs cannot thwart discovery simply by asserting that the requests ask for confidential and proprietary information. Plaintiffs cannot sustain such a claim. As the Supreme Court stated in *Federal Open Mkt. Comm. of the Fed. Reserve Sys. v. Merrill*, 443 U.S. 340, 362 (1979), "There is no absolute privilege for trade secrets and similar confidential information." The Tenth Circuit applying *Merrill* to objections to production, in *Centurion Indus. Inc. v. Warren Steurer and Assoc.*, 665 F.2d 323 (10th Cir. 1981) stated that "to resist discovery under Rule 26(c)(7), a person must first establish that the information sought is a trade secret and then demonstrate that its disclosure might be harmful." *Id.* at 325. Hence, unless plaintiffs demonstrate that specific documents con-

tain confidential and proprietary information and that its disclosure might be harmful, plaintiffs' objections are wholly without merit. A few examples of the type of information the plaintiffs are classifying as confidential and proprietary will demonstrate that they cannot sustain this objection: plaintiffs have applied a "confidential and proprietary" label to travel and expense vouchers, calendars, telephone bills, and trade association information.

Moreover, even were plaintiffs to establish that documents responsive to these requests do, in fact, contain confidential or proprietary information, plaintiffs would not be excused from production in this case. When Irwin produced the documents requested by plaintiffs, counsel for Irwin offered to enter into an appropriate protective order, a suggestion that counsel for plaintiffs repeatedly declined. The parties, nonetheless, eventually agreed to be bound by a stipulation that any documents produced will not be shown to anyone until the parties have had an opportunity to discuss the issue further. Thus, there is currently no need for a protective order.

Plaintiffs have simply refused to produce *any* documents concerning Irwin's antitrust counterclaims and affirmative defenses. This wholesale refusal is not supported by law or the facts in this case.

VII.

PRODUCTION OF ALL DOCUMENTS IN THE CENTRAL DISTRICT OF CALIFORNIA IS REASONABLE

Plaintiffs' attempt to avoid producing the documents in the Central District of California is unwarranted. The Federal Rules of Civil Procedure require that document requests specify "a reasonable time, place, and manner of producing the documents." Fed. R. Civ. P. 34. Plaintiffs do not contend that the district is not a "reasonable" place for production. Rather, they merely refuse to produce the documents in this district, without explanation and without

justification. This is nothing more than an attempt to further inhibit production.

When plaintiffs requested documents from Irwin, all documents were sent directly to plaintiffs' counsel. Irwin asks only that it be accorded the same treatment. As plaintiffs' corporate headquarters are scattered throughout the country, Irwin's choice of a central location within the jurisdiction would greatly reduce the total discovery production costs and expenses.

The courts have recognized the need for a central location for production. In *Compagnie des Bauxites de Guinea v. Insurance Co. of North America*, 651 F.2d 877, 883 (3d Cir.), cert. denied, 457 U.S. 1105 (1981), the district court used its discretion "to order that the necessary documents be brought to Pittsburgh for examination by CBG [Compagnie des Bauxites de Guinea] instead of requiring CBG to inspect the records at the home office of each of the twenty-one insurance companies." CBG was the plaintiff in this case and chose to sue all of the defendants in Pennsylvania. Nevertheless, the Third Circuit found that this order compelling all 21 defendants to produce documents in Pittsburgh, Pennsylvania was well within the trial court's discretion.

This logic is even more compelling here, where it is the plaintiffs who are seeking to avoid a central production. The eight plaintiffs chose to bring a joint action in this district. Fairness dictates that plaintiffs, who chose to file this suit jointly in the Central District of California, not require Irwin to travel back and forth to eight different headquarters in order to review and copy the requested documents. In addition, plaintiffs are using counsel located in this district, who must compile the material. The logistics of discovery could best be served by the court's requiring production at one convenient and central location within the Central District of California.

VIII.

IRWIN IS ENTITLED TO AN AWARD OF EXPENSES AND ATTORNEY FEES ON THIS MOTION FROM PLAINTIFF AND PLAINTIFFS' COUNSEL

Plaintiffs' refusal to cooperate in discovery is totally unjustified. First, plaintiffs' objections are unsupported, boilerplate objections that were made by plaintiffs' counsel before plaintiffs undertook any effort whatsoever to identify documents responsive to the requests. Plaintiffs made no effort even to identify responsive documents until May, 1985—four months after plaintiffs were required to produce the documents.

Irwin tried in vain from February through July to secure production of non-objectionable documents and reduce or eliminate the issues in this motion. Plaintiffs, however, steadfastly maintained their unjustified refusal to cooperate. Plaintiffs failed to comply with the May 17, 1985 partial production date agreed between counsel and have produced no documents since May, even though plaintiffs' counsel has stated that there are additional documents responsive to the requests that are not objected to. Nor would plaintiffs' counsel agree to a new time in which to produce those documents. Plaintiffs' counsel, in a telephone conversation with counsel for Irwin on June 5, 1985, even referred to her own clients as "dinosaurs." Plaintiffs' counsel, in discussing plaintiffs' failure to respond to the document requests, stated that plaintiffs are simply "not cooperating."

The failure to cooperate is not supported by any legally recognized justification for resisting discovery. Rather, it can be attributed only to an attempt to impair or impede the development of Irwin's defense and counterclaims. The lack of any substantial justification for plaintiffs' refusal to cooperate compels the imposition of sanctions. Rule 37 of the Federal Rules of Civil Procedures provides:

If the motion is granted, the court *shall*, after opportunity for hearing, require the party or deponent whose conduct necessitated the motion or the party or attorney advising such conduct or both of them to pay to the moving party the reasonable expenses incurred in obtaining the order including attorneys fees, unless the court finds that the opposition to the motion was substantially justified or that other circumstances make an award of expenses unjust.

Fed. R. Civ. P. 37(a)(4) (emphasis added). The plaintiffs' conduct has been obstructionist and warrants sanctions.

The courts have awarded attorney fees and costs in similar circumstances. In *Marquis v. Chrysler Corp.*, 577 F.2d 624 (9th Cir. 1978), the Court of Appeals sustained a trial court's order for the defendants to pay plaintiffs "expenses and fees incurred as a result of their failure to produce documents required by discovery." *Id.* at 641. The Court in upholding this sanction, ruled that:

When a party's conduct during discovery necessitates its opponents' bringing motions which otherwise would have been unnecessary, the court may properly order it to pay the moving party's expenses unless its conduct was "substantially justified" or other circumstances make the award "unjust." Fed.R.Civ.P. 37(a)(4). Recent amendments to the rule make it clear that such awards may be imposed more frequently to discourage unnecessary involvement of the court in discovery. *See generally* 4A Moore's Federal Practice, ¶ 37.02[10.-2] at 37-44 (1975).

Id. at 641-42; *see also* *Hayden Stone, Inc. v. Brode*, 508 F.2d 895, 897 (7th Cir. 1974). Given plaintiffs' continuous obstruction of discovery, sanctions of attorney fees and costs are warranted.

CONCLUSION

The eight plaintiffs who brought suit in this case have refused to cooperate in discovery. All eight plaintiffs together have produced only ninety-six documents to date. Their responses have been inadequate and their objections unjustified. Accordingly, for the reasons set forth above, Irwin respectfully requests this Court to enter an order compelling plaintiffs to produce all of the documents requested in Irwin's January 7, 1985 Document Requests, and order plaintiffs and plaintiffs' counsel to pay the costs, including attorney fees, that Irwin incurred in preparing this motion and attending the Rule 7 meeting.

Dated: August 12, 1985

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW
CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNS

By: _____
Jeffrey W. King
Attorneys for Defendants and Counter-
claimants Professional Real Estate
Investors, Inc., and Kenneth F. Irwin

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
CIVIL MINUTES—GENERAL

Case No. CV 83-2594-WPG
December 16, 1985

Title COLUMBIA PICTURES INDUSTRIES, ET AL -v-
PROFESSIONAL REAL ESTATE INVESTORS, ET AL
PRESENT:

HON. WILLIAM P. GRAY, JUDGE
Angela Dawson, Deputy Clerk
Delia Rotunno, Court Reporter

ATTORNEYS PRESENT FOR PLAINTIFFS:

Steve Kroft
Maren Christianson

ATTORNEYS PRESENT FOR DEFENDANTS:

Jeffrey King
Patrick Coyne
Laura Barns

PROCEEDINGS:

- 1) MOTION OF PLAINTIFFS FOR SUMMARY JUDGMENT
AND PERMANENT INJUNCTION
- 2) CROSS-MOTION OF DEFENDANTS FOR SUMMARY
JUDGMENT

Case called and counsel present. Counsel argue. Court
Grants defendants' motion for summary judgment.
Counsel for defendant to prepare judgment and findings.
Court allows 10 days for plaintiffs to object to proposed
order.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

FILED

JAN 22 1986

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

JUDGMENT

This action having come on for hearing before the Court,
the Honorable William P. Gray, District Judge, presiding;
the claims of the complaint having been duly heard and
a decision having been duly rendered thereon; the Court
having expressly determined that there is no just reason
for delay; and the Court having expressly directed entry
of a final judgment as to the claims of the complaint only,

IT IS ORDERED AND ADJUDGED

that plaintiffs Columbia Pictures, Inc., Embassy Pic-
tures, Paramount Pictures Corporation, Twentieth Cen-

tury-Fox Film Corporation, Universal City Studios, Inc., Walt Disney Productions, Warner Bros. Inc. and CBS Inc. ("plaintiffs") take nothing; that the claims of the complaint be dismissed on the merits; and that the defendants Professional Real Estate Investors, Inc. and Kenneth F. Irwin ("defendants") recover from the plaintiffs their costs of action in the amount of _____.

Dated at Los Angeles, California, this 22 day of January, 1986.

WILLIAM P. GRAY
Clerk of the Court
Judge

Presented by:

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By Laura J. Barnes
Laura J. Barnes
Attorneys for Defendants

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED

MARCH 3 1986

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY**

**NOTICE OF MOTION AND MOTION TO COMPEL
COUNTERDEFENDANTS TO PRODUCE DOCUMENTS
AND FOR EXPENSES AND ATTORNEYS FEES**

Hearing Date: March 24, 1986

Hearing Time: 10:00 a.m.

Hearing Place: Court Room 23

[Table of Contents omitted in this printing]

**NOTICE OF MOTION AND MOTION TO COMPEL
PLAINTIFFS AND COUNTERDEFENDANTS TO
PRODUCE DOCUMENTS**

PLEASE TAKE NOTICE that on March 24, 1986 at 10:00 a.m., or as soon thereafter as counsel may be heard, defendants and counterclaimants, Professional Real Estate Investors, Inc., and Mr. Kenneth F. Irwin (collectively referred to as "Irwin"), will move, and do hereby move, the Court for an order pursuant to Rule 37 of the Federal Rules of Civil Procedure, requiring plaintiffs and counter-defendants, Columbia Industries, Inc., *et al.* (collectively referred to as "plaintiffs"), to produce for inspection and copying the documents requested in Irwin's Request for Production of Documents, served on January 7, 1985, and requiring plaintiffs and plaintiffs' counsel to pay Irwin's expenses and attorney's fees incurred in connection with this motion as a result of plaintiffs' failures to cooperate in discovery.

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By Laura J. Barnes
Jeffrey W. King
Attorneys for Defendants/
Counterclaimants

Dated: March 3, 1986

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

FILED

MAY 24 1983

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

STIPULATION AND ORDER

The parties hereto, by their respective undersigned counsel, hereby stipulate that defendants may have until June 23, 1983 to respond to plaintiffs' complaint in this action. There have been no prior extensions of time. This extension of 30 days is requested in order to permit local counsel for defendants to become familiar with the issues presented by this case before responding to the complaint.

DATED: May 10, 1983 Dorothy Wolpert
Joel E. Boxer
NUTTER, BIRD, MARELLA,
BOXER & WOLPERT
By Joel E. Boxer
Joel E. Boxer
Attorneys for Plaintiffs

DATED: May 19, 1983 Michael J. Dennis, Esq.

Jeffrey W. King, Esq.
COLLIER, SHANNON, RILL &
SCOTT

By Michael J. Dennis
Michael J. Dennis
Attorneys for Defendants

ORDER

IT IS SO ORDERED.

DATED: May 24 1983 MARIANA R. PFAELZER
UNITED STATES DISTRICT
JUDGE

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.

STIPULATION AND ORDER

The parties hereto, by their respective undersigned counsel, hereby stipulate that defendants may have until July 23, 1983 to respond to plaintiffs' complaint in this action. This extension of 30 days is requested in order to permit the parties to explore the possibility of settlement of the issues presented by this case.

JA-102

DATED: June 23, 1983 Dorothy Wolpert

Joel E. Boxer

NUTTER, BIRD, MARELLA,
BOXER & WOLPERT

By: /s/ Dorothy Wolpert

Dorothy Wolpert
Attorneys for Plaintiffs

DATED: June 22, 1983 Michael J. Dennis, Esq.

Jeffrey W. King, Esq.

COLLIER, SHANNON, RILL &
SCOTT

By: JW King

Jeffrey W. King
Attorneys for Defendants

ORDER

IT IS SO ORDERED.
DATED:

UNITED STATES DISTRICT
JUDGE

JA-103

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

FILED

AUG 2 1983

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

STIPULATION AND ORDER

The parties hereto, by their respective undersigned counsel, hereby stipulate that defendants may have until September 23, 1983, to respond to plaintiff's complaint in this action. The parties are actively negotiating settlement of the issues presented by this case, and this extension is requested in order to permit the parties to continue to explore the possibility of settlement.

DATED: July 27, 1983 Dorothy Wolpert
Joel E. Boxer
NUTTER, BIRD, MARELLA,
BOXER & WOLPERT

By: Dorothy Wolpert
Dorothy Wolpert
Attorneys for Plaintiffs

DATED: July 26, 1983 Michael J. Dennis
Jeffrey W. King, Esq.
COLLIER, SHANN, RILL
& SCOTT

By: Jeffrey W. King
Jeffrey W. King
Attorneys for Defendants

ORDER

IT IS SO ORDERED.

DATED: AUG 2 1983 MARIANA R. PFAELZER
UNITED STATES DISTRICT
JUDGE

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

STIPULATION AND ORDER

The parties hereto, by their respective undersigned counsel, hereby stipulate that defendants may have until November 23, 1983, to respond to plaintiff's complain in this action. The parties are actively negotiating settlement of the issues presented by this case, and this extension is requested in order to permit the parties to continue to explore the possibility of settlement.

DATED: Sep. 21, 1983 Dorothy Wolpert
Joel E. Boxer
NUTTER, BIRD, MARELLA,
BOXER & WOLPERT

By: Dorothy Wolpert
Dorothy Wolpert
Attorneys for Plaintiffs

DATED: Sep. 20, 1983 Michael J. Dennis
Jeffrey W. King
COLLIER, SHANNON, RILL
& SCOTT
By: Jeffrey W. King
Jeffrey W. King
Attorneys for Defendants

ORDER

IT IS SO ORDERED.
DATED:

UNITED STATES DISTRICT
JUDGE

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83 2594

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

STIPULATION AND ORDER

FILED

NOV 28 1983

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

The parties hereto, by their respective undersigned counsel, hereby stipulate that defendants may have until December 23, 1983, to respond to plaintiff's complaint in this action. The parties are actively negotiating settlement of the issues presented by this case, and this extension is requested in order to permit the parties to continue to explore the possibility of settlement. It is intended that no further extensions will be needed.

DATED: Nov 22, 1983 Dorothy Wolpert

Joel E. Boxer

NUTTER, BIRD, MARELLA,
BOXER & WOLPERT

By: /s/ Dorothy Wolpert

Dorothy Wolpert
Attorneys for Plaintiffs

DATED: Nov 21, 1983 Michael J. Dennis

Jeffrey W. King

COLLIER, SHANNON, RILL &
SCOTT

By: /s/ Jeffrey W. King/by
C.J.M.

Jeffrey W. King
Attorneys for Defendants

ORDER

IT IS SO ORDERED.

DATED: Nov 28 1983 /s/ William P. Gray

UNITED STATES DISTRICT
JUDGE

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

STIPULATION AND ORDER

FILED

JAN 3 1984

**CLERK U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

BY

DEPUTY

The parties hereto, by their respective undersigned counsel, hereby stipulate that defendants may have until January 12, 1984, to respond to plaintiffs' complaint in this action. The parties are actively negotiating settlement of the issues presented by this case and, as these negotiations have been interrupted by the approaching holidays, this extension is requested in order to permit the parties to continue to explore the possibility of settlement.

JA-110

DATED: Dec 27, 1983 Dorothy Wolpert
Joel E. Boxer
NUTTER, BIRD, MARELLA,
BOXER & WOLPERT

By: /s/ Joel E. Boxer
Joel E. Boxer
Attorneys for Plaintiffs

DATED: Dec 23, 1983 Michael J. Dennis
Jeffrey W. King
Christopher J. MacAvoy
COLLIER, SHANNON, RILL &
SCOTT

By: /s/ Christopher J. MacAvoy
Christopher J. MacAvoy
Attorneys for Defendants

ORDER

IT IS SO ORDERED.

DATED: 1/3/84 /s/ William P. Gray
UNITED STATES DISTRICT
JUDGE

JA-111

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

STIPULATION AND ORDER

FILED

JAN 26 1984

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

The parties hereto, by their respective undersigned counsel, hereby stipulate that defendants may have until February 9, 1984, to respond to plaintiffs' complaint in this action. The parties are actively negotiating settlement of the issues presented by this case, and this extension is requested in order to permit the parties to more fully explore the possibility of settlement. The parties have scheduled a number of meetings for the purpose of discussing settlement. The last of these meetings is scheduled to take place on February 2, 1984. This stipulation is not entered into for the purpose of delay, but rather to enable the parties to fully explore the possibility of settlement.

JA-112

Dated: Jan 17, 1984 Jeffrey W. King
COLLIER, SHANNON, RILL &
SCOTT

Michael J. Dennis
Laura J. Barns
MICHAEL J. DENNIS LAW
CORPORATION

By: /s/ Laura J. Barns
Laura J. Barns
Attorneys for Defendants

Dated: Jan , 1984 Dorothy Wolpert
Joel E. Boxer
NUTTER, BIRD, MARELLA,
BOXER & WOLPERT

By: _____
Dorothy Wolpert
Attorneys for Plaintiffs

ORDER

IT IS SO ORDERED.

Dated: 1/24/84 /s/ William P. Gray
UNITED STATES DISTRICT
JUDGE

JA-113

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

FILED

AUG 24 1984

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

STIPULATION AND ORDER

IT IS HEREBY STIPULATED by and between the parties, by and through their respective counsel, that plaintiffs may have through and including August 28, 1984 to answer or otherwise plead to the counterclaims served upon them in this matter.

Plaintiffs have obtained by stipulation and court order prior extensions of time from March 1 to August 14, 1984 to answer or otherwise plead to the counterclaims so that the parties may engage in settlement negotiations. This additional two week extension of time is requested because defendants' and counter-claimants' lead counsel, Jeffrey W. King of Collier, Shannon, Rill & Scott, Washington,

D.C. is presently ill and unable to communicate on the subject of settlement at the present time. It is anticipated that Mr. King will be able to return to work or communicate with his office on the subject of defendants' position on settlement within one week. At that time the parties anticipate the case will either be resolved by settlement or proceed forward to its discovery phase.

DATED: August 9, 1984 NUTTER, BIRD, MARELLA,
BOXER, WOLPERT & MATZ
A Professional Corporation

By: Joel E. Boxer
Joel E. Boxer
Attorneys for Plaintiffs

DATED: August 10, 1984 MICHAEL J. DENNIS
LAW CORPORATION

By: Laura J. Barns
Laura J. Barns
Attorneys for Defendants

ORDER

It is so ordered.

DATED: August 24, 1984 Mariana R. Pfaelzer
UNITED STATES DISTRICT
JUDGE

UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA

Case No: 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Counterclaimants,

vs.

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Counterdefendants.

JOINT REPORT OF EARLY MEETING [Local Rule 6.2]

Counsel for the parties hereby jointly submit the following Report in accordance with Local Rule 6.2.

Counsel for the parties have met for the purpose of discussing the status of the case. As the record herein establishes, settlement has been seriously pursued over a substantial period of time.

In the interests of constructively pursuing that settlement and cutting costs for the parties, litigation activities were stayed in order to give the parties an opportunity to resolve their dispute.

Unfortunately, these settlement explorations were not fruitful. When it became obvious that a settlement was

not imminent, counsel for the parties conferred and commenced discovery. Defendants produced documents and the first session of defendant Kenneth Irwin's deposition was completed in December 1984. The second session of that deposition is set for January 15, 1985.

Counsel for the parties agree that there are probably few, if any, factual disputes in this case and that it revolves instead around a single issue of law, to wit: do the defendants' activities constitute copyright infringement.

It is the intention of plaintiffs to bring on a motion for summary judgment after the completion of defendant Irwin's deposition and receipt of the transcript of that deposition and complete analysis of the documents produced.

On January 15, 1985, on the occasion of the second session of Mr. Irwin's deposition, counsel will discuss the possibility of arriving at a set of stipulated facts for the purpose of plaintiffs' motion (and possibly defendants' cross-motion) for summary judgment. At that time it is contemplated that counsel for defendants will inform counsel for plaintiffs of any discovery which defendants wish to undertake.

Since counsel believe that it is more likely than not that the Court will be able to dispose of this action on summary judgment, it is respectfully requested that the Court postpone setting pre-trial and trial dates in the action until after the hearing on such a motion.

Dated: Jan __, 1985.

Respectfully submitted,
Dorothy Wolpert
Joel E. Boxer
NUTTER, BIRD, MARELLA,
BOXER, WOLPERT & MATZ

By: _____
Dorothy Wolpert, Attorneys for
Plaintiffs and Counter-defendants

Dated: Jan __, 1985.

Collier, Shannon, Rill & Scott
Attorneys-at-Law

By: _____
Jeffrey W. King, Attorneys for
Defendants and Counter-
claimants La Mancha and
Kenneth F. Irwin

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No: 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.
AND RELATED COUNTERCLAIM

NOTICE OF MOTION AND MOTION FOR SANCTIONS
PURSUANT TO LOCAL RULE 27; MEMORANDUM AND
DECLARATIONS IN SUPPORT OF MOTION; AND
PROPOSED ORDER

Hearing Date: September 9, 1985

Hearing Time: 10:00 A.M.

Hearing Place: Courtroom No. 23

PLEASE TAKE NOTICE that on September 9, 1985 at 10:00 a.m., or as soon, thereafter as counsel may be heard, defendants and counterclaimants, Professional Real Estate Investors, Inc., and Mr. Kenneth F. Irwin (collectively referred to as "Irwin"), will move the Court for an order pursuant to Local Rule 27, imposing on plaintiffs and counterdefendants, Columbia Pictures Industries, Inc., *et al.*, (collectively referred to as "plaintiffs"), sanctions including dismissal with prejudice of plaintiffs' action, and an award of defendants' costs and attorneys' fees for failure to fulfill their pre-trial obligations, for failure to comply with the Local Rules of the U.S. District Court for the Central District of California, and for failure to comply with the Federal Rules of Civil Procedure.

Dated: August 8, 1985

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By: /s/ Jeffrey W. King
Jeffrey W. King
Attorneys for Defendants and
Counter-claimants Professional Real
Estate Investors, Inc., and Kenneth
F. Irwin

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No: 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants,

AND RELATED COUNTERCLAIM

MEMORANDUM IN SUPPORT OF
DEFENDANTS' AND COUNTERCLAIMANTS'
MOTION FOR SANCTIONS PURSUANT TO
LOCAL RULE 27

Defendants and counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively "Irwin"), respectfully submit this memorandum in support of their motion for sanctions pursuant to Local Rule 27 of the United States District Court for the Central District of California, against plaintiffs for violations of the Local Rules of this Court, for violations of the Federal Rules of Civil Procedure and for failure to fulfill their pre-trial obligations. Plaintiffs in this action have consistently refused to participate in pre-trial preparation, thereby depriving Irwin of the right to be confronted with the evidence against them and impairing their ability to prepare their defense and counterclaims.

Specifically, plaintiffs have violated the three basic local rules (Rules 6, 7, and 9) and the principal Federal Rule (Rule 16) designed to ensure proper pre-trial preparation. Plaintiffs violated Local Rule 6 which requires the parties to meet within twenty days after the complaint was an-

swered and to exchange documents at the meeting. Plaintiffs, notwithstanding a suggestion by Irwin's counsel, failed to hold the early meeting until eleven months after the complaint was answered and then only when ordered to do so by this Court. Once the meeting was held, however, plaintiffs failed to exchange, as required by Local Rule 6, any documents which were reasonably available to them which were contemplated to be used in support of the allegations in the complaint.

Plaintiffs have also violated Local Rule 7 by refusing to participate in discovery.¹ Specifically, plaintiffs' have virtually refused to produce any documents requested in discovery, and failed to participate in a meeting of counsel to attempt to resolve the discovery disputes, which is required by Local Rule 7.15.1.

Finally, plaintiffs violated Local Rule 9 and Rule 16 of the Federal Rules of Civil Procedure by failing to prepare for and participate in the required meeting of counsel prior to this Court's scheduled September 9, 1985 pre-trial conference.

Plaintiffs' conduct is not an isolated failure to comply with the rules or a result of inadvertance or mistake; rather, plaintiffs' behavior reflects a deliberate pattern of denying Irwin access to any pre-trial information necessary to prepare a defense and counterclaims. In light of this continuous refusal to cooperate in pre-trial preparations in violation of the rules of this Court, sanctions are warranted including dismissal and an award of costs and attorney fees.

STATEMENTS OF FACTS

The eight plaintiffs in this action filed suit on April 25, 1983 alleging copyright infringement by Irwin. The parties

¹ A separate motion to compel has been prepared and will likely be filed within the next week.

agreed to several extensions of time for Irwin to answer the complaint in order for the parties to attempt to negotiate settlement. Settlement was never reached, and on February 9, 1985, Irwin filed an answer to the complaint, along with affirmative defenses and counterclaims. After several extensions of time at the request of plaintiffs, plaintiffs filed their answer to the counterclaims on August 27, 1984. At that time, plaintiffs noticed the deposition of Kenneth Irwin and served a request for production of documents. That deposition commenced in November, at which time Irwin produced the documents requested by plaintiffs. The deposition was continued and completed on January 15, 1985. An explanation of plaintiff's violations of their obligations under the rules are provided below.

I. PLAINTIFFS VIOLATED THE REQUIREMENT TO HOLD AN EARLY MEETING OF COUNSEL UNDER LOCAL RULE 6

Plaintiffs have violated the early meeting requirement under Local Rule 6. This rule requires the parties to meet twenty days after the complaint is answered. Plaintiffs failed to participate in an early meeting pursuant to Local Rule 6.1 until eleven months after an answer was served. Plaintiffs did not request an extension of time within which to hold the meeting, nor was one granted. Counsel for Irwin noted to plaintiffs on at least one occasion that plaintiffs were obligated to set up the Rule 6 early meeting. Plaintiffs' counsel simply replied that she knew about the rule and her obligations but took no steps to set up the meeting. *Declaration of Laura Barns* (attached hereto as Exhibit 1). No early meeting was held until forced by the actions of this Court. On December 27, 1984, this Court issued an order to show cause why this action should not be dismissed for failure to file the Joint Report of Early Meeting required by Local Rule 6. When plaintiffs made no attempt to contact Irwin concerning the Court's order, Irwin prepared an early meeting report and for-

warded it to plaintiffs. After some negotiations, plaintiff's agreed to conduct the early meeting on January 15, 1985.

Under Local Rule 6, counsel at this early meeting are "[t]o exchange all documents then reasonably available to a party which are then contemplated to be used in support of the allegations of the pleadings filed by the party." Prior to the early meeting on January 15, 1985, Irwin specifically requested the plaintiffs to provide them with all documents required under Rule 6. *Letter from Jeffrey W. King to Dorothy Wolpert* (January 10, 1985) (attached hereto as Exhibit 2). Notwithstanding their obligations under the rule, and Irwin's specific request and reminder of those obligations, plaintiffs failed to produce a single document at the early meeting.

Plaintiff's failure to cooperate in an early meeting cannot be considered inadvertent. They were reminded of their obligations and simply refused to participate in any meaningful way. Rule 6 is the first of several local rules which are intended to insure proper and expeditious trial preparation. Plaintiffs' disregard of their obligations under the rule was only the first of plaintiffs' failures to comply with the pre-trial preparation rules of this Court.

II. PLAINTIFFS VIOLATED LOCAL RULE 7 BY FAILING TO COOPERATE IN DISCOVERY AND PARTICIPATE IN THE REQUIRED MEETING OF COUNSEL.

On January 7, 1985, Irwin served on each of the eight plaintiffs a set of requests for production of documents. On February 7, 1985, plaintiffs mailed their objections to the document request. One week later, co-counsel for Irwin contacted plaintiffs' counsel to request information about the documents plaintiffs had agreed to produce. *Letter from Laura Barns to Dorothy Wolpert* (February 15, 1985) (attached hereto as Exhibit 3). Plaintiffs, however, failed to respond to that inquiry. Accordingly, on March 1, 1985, Irwin's counsel sent to plaintiffs a letter specifically requesting a meeting under Local Rule 7.15.1 to resolve the

discovery dispute. *Letter for Jeffrey W. King to Dorothy Wolper* (March 1, 1985) (attached hereto as Exhibit 4). The letter was sent by overnight mail. Under the Local Rules, plaintiffs' counsel was obligated to meet within ten days of service of the March 1 letter. Even allowing three days for mailing time (when in fact the correspondence was sent by overnight delivery), that meeting had to take place by March 14. On March 12, ten days after plaintiffs received Irwin's meeting request, Irwin's counsel sent another letter by express mail reiterating the earlier request for the discovery conference. *Letter from Jeffrey W. King to Dorothy Wolpert* (March 12, 1985) (attached hereto as Exhibit 5). Rather than set up the meeting, or attempt to discuss this matter by telephone, plaintiffs' counsel sent a letter on March 13, 1985 stating that she would be available for a meeting during the week of March 25, 1985—more than three weeks after the conference had originally been requested and almost two weeks after the deadline for holding the conference pursuant to the local rules had passed.

This failure to comply with the requirements of Rule 7 could be written off as mere inadvertence, if in fact plaintiffs had cooperated thereafter. Irwin's continued attempts to try to arrange for the meeting, however, proved unsuccessful. During April, May, and June, Irwin tried to negotiate a partial response to the request and to arrange for the Rule 7 meeting. These attempts have been essentially unproductive and counsel for plaintiffs stated that plaintiffs were "not cooperating." *Declaration of Patrick J. Coyne*, (attached hereto as Exhibit 6).

In early June, 1985, plaintiffs' counsel informed counsel for Irwin that she would be in Washington, D.C. and that the Rule 7 meeting could take place during her visit. Irwin's counsel agreed and counsel for plaintiffs stated that she would provide Irwin with a schedule. Nothing further was heard from plaintiffs until a letter in late June, informing Irwin that plaintiffs' counsel was unable to ar-

range the meeting while in Washington. That letter was after plaintiffs' counsel had returned to the West Coast.

Finally, when this Court ordered a pre-trial conference, on July 5, 1985, Irwin's counsel arranged for the meeting of counsel required by Local Rule 9. In arranging that meeting, Irwin's counsel also explained to plaintiffs' counsel that the meeting would include the meeting required under Local Rule 7 and plaintiffs' counsel expressly agreed to those arrangements. The combined Rule 7 and Rule 9 meeting was to take place on July 31, 1985 in the Los Angeles offices of Michael Dennis.

On July 31, 1985, defendant's counsel, Jeffrey W. King, traveled from Washington, D.C. to meet with plaintiffs' counsel in California. When counsel for plaintiffs appeared, they initially refused to discuss discovery issues. Plaintiffs' counsel claimed they were unaware that the meeting would include the discovery dispute and were unprepared to discuss these issues.² Counsel for Irwin had prepared a stipulation, pursuant to Local Rule 7.15.2, which set forth the disputes over Irwin's discovery requests. Counsel for plaintiffs stated that they would take the stipulation with them and consider it. Only after Irwin's counsel insisted, did plaintiff's counsel agree to discuss the individual document requests, but limited the discussion to fifteen minutes. The discussion, however, proved virtually fruitless. Plaintiff's counsel essentially failed to commit to any ad-

² Up until the July 31, 1985 meeting, almost all contact with plaintiffs was through their counsel Dorothy Wolpert. Ms. Wolpert, however, did not attend the July 31 meeting. Instead, her partners Joel Boxer and Robert Rosen attended the meeting and claimed to be unaware of any arrangement made by Ms. Wolpert to include the Rule 7 conference at the July 31 meeting. Mr. Boxer stated that he understood the meeting to be only pursuant to Rule 9. Even accepting this excuse, Local Rule 9.4.8 expressly requires the parties to discuss discovery disputes at the Rule 9 meeting. There is, therefore, no excuse for plaintiffs' failure to be prepared and to cooperate in discussing the discovery disputes.

ditional discovery stating only that they would "reconsider" Irwin's request. Plaintiff's counsel was required under Local Rule 7.15.4 to respond within seven days to the request by Irwin for plaintiffs contentions on the discovery issues made at the meeting of counsel. Nine days have now passed since the meeting and counsel for Irwin has yet to hear from plaintiff's counsel concerning this matter.³

Declaration of Jeffrey W. King (attached hereto as Exhibit 7); *Declaration of Laura J. Barnes* (attached hereto as Exhibit 1).

Plaintiffs have frustrated the essential purpose of Local Rule 7 which seeks to achieve cooperation during discovery. Not only have plaintiffs resisted discovery, but they have failed to participate in the meeting of counsel in an attempt to resolve these discovery disputes or, at a minimum, to allow Irwin to move forward with a motion to compel. This, coupled with the earlier violations of Local Rule 6 and the failure to produce any documents during the early meeting of counsel, have frustrated Irwin's attempts to prepare for trial. Plaintiffs' disregard for the rules, however, did not stop there.

III. PLAINTIFFS HAVE VIOLATED LOCAL RULE 9 AND RULE 16 OF THE FEDERAL RULES OF CIVIL PROCEDURE BY NOT PARTICIPATING IN THE PRE-TRIAL CONFERENCE MEETING OF COUNSEL.

On July 5, 1985, this Court issued a notice of pre-trial conference schedule for September 9, 1985. Pursuant to the local rules, the parties must meet 40 days prior to that conference to discuss a variety of topics and exchange witness and exhibit lists along with any exhibits that have not already been exchanged. Local Rule 9.1. When counsel for Irwin had not heard from plaintiffs for almost three

³ The only contact plaintiffs made was to inform Irwin that seven of the eight plaintiffs had retained new counsel and that plaintiffs had filed a motion to continue the pre-trial conference.

weeks after the court ordered the pre-trial conference, Irwin's counsel contacted plaintiffs and set up this meeting. The meeting was to be held on July 31, 1985. Mr. King, Irwin's counsel, agreed to go to California for the meeting. The meeting was held in Irwin's local counsel's office in Los Angeles.

Irwin provided plaintiffs with a list of documents along with any documents not previously exchanged, a list of witnesses, and a list of expert witnesses. In addition they provide plaintiffs a proposed stipulation of facts. Moreover, Irwin provided and discussed in detail their legal and factual contentions as well as the other topics required under Local Rule 9.4.

In contrast, plaintiffs failed to produce a single piece of information at the conference. They provided no documents, nor any list of documents; they provided no list of witnesses or expert witnesses; they refused to discuss the stipulation of facts stating instead that they would review Irwin's proposed stipulation and contact us; and their only explanation of their contentions was that Irwin violated the copyright laws by allowing public performances of plaintiffs' works at Irwin's resort and club. *Declaration of Jeffrey W. King* (attached hereto as Exhibit 7); *Declaration of Laura J. Barnes* (attached hereto as Exhibit 1). Over seven days after that pre-trial meeting of counsel, counsel for Irwin have yet to receive any information or response from plaintiffs concerning these matters.⁴

Plaintiffs refusal to participate in this meeting violates the clear, specific requirements of Local Rule 9. Moreover, their actions also violate Rule 16 of the Federal Rules of Civil Procedure. Specifically, the rules set forth pre-trial procedures and provides, in pertinent part, that:

⁴ As indicated earlier, plaintiffs' only response to date has been an attempt to postpone their additional pre-trial obligations under the Rules.

If a party or party's attorney fails to obey a scheduling or pre-trial order . . . or if a party or party's attorney is substantially unprepared to participate in the conference, or if a party or party's attorney fails to participate in good faith, the judge, upon motion or his own initiative, may make such orders with regard thereto as are just, and among others any of the orders provided in Rule 37(b)(2)(B), (C), (D).

Fed. R. Civ. P. 16(f). Rule 16 was significantly amended in 1983 to ensure proper pre-trial preparation and cooperation and to "reinforce the rules intention to encourage forceful judicial management." See *Advisory Committee Note to the 1983 Amendment to Fed. R. Civ. P. 16*, reprinted in, 97 F.R.D. 165, 213). Plaintiffs' actions clearly violate these rules and warrant severe sanctions.

IV. PLAINTIFFS REPEATED VIOLATIONS OF THE TRIAL PREPARATION RULES WARRANT DISMISSAL.

Plaintiff's violations of these rules have totally frustrated the ability of Irwin to prepare for trial. The local rules violated by plaintiffs are not hypertechnical. Rather they are the basic rules laid down by this Court to insure proper and expeditious trial preparation. Similarly, Rule 16 of Federal Rules of Civil Procedure is designed to ensure proper pre-trial preparation by giving the court control over pre-trial preparation and authority to deal with failure to "participate in good faith" in that preparation. Fed. R. Civ. P. 16(f). Plaintiffs, who brought this suit, now refuse to participate in pre-trial preparation in any meaningful way. Dismissal of plaintiffs' claims is the most appropriate sanction given plaintiffs' chronic refusal to cooperate and to prosecute their case.

Sanctions must be imposed or the integrity of the rules and the ability of the opposing party to prepare for litigation will be jeopardized. The Supreme Court recognized

the need for severe sanctions when there were willful and continuous failures to comply with the rules causing delays in the proceedings. In *National Hockey League v. Metropolitan Hockey Club, Inc.*, 427 U.S. 537 (1976), the Supreme Court upheld a district court's dismissal of plaintiff's case for failure of plaintiff timely to answer interrogatories. In so ruling, the Court noted that

But here, as in other areas of the law, the most severe in the spectrum of sanctions provided by statute or rule must be available to the district court in appropriate cases, not merely to penalize those whose conduct may be deemed to warrant such a sanction, but to deter those who might be tempted to such conduct in the absence of such a deterrent. If the decision of the Court of Appeals remained undisturbed in this case, it might well be that these respondents would faithfully comply with all future discovery orders entered by the District Court in this case. But other parties to other lawsuits would feel freer than we think Rule 37 contemplates they should feel to flout other discovery orders of other district courts. Under the circumstances of this case, we hold that the District Judge did not abuse his discretion in finding bad faith on the part of these respondents, and concluding that the extreme sanction of dismissal was appropriate in this case by reason of respondents' "flagrant bad faith" and their counsel's "callous disregard" of their responsibilities.

Id. at 643; *Accord, Weisberg v. Webster*, 749 F.2d 864 (D.C. Cir. 1984) (dismissal for violation of discovery order).

Plaintiffs' actions have been in "flagrant bad faith" and show "callous disregard" of their responsibilities and the rules of this Court. Plaintiffs' violations are not merely technical, but impinge upon the ability of Irwin to prepare

their defense and counterclaims, and of the court to control this litigation. This is not a matter of a single rules violation on a single occasion. Rather, plaintiffs have violated three of the most important local rules, and a principal federal rule, designed to facilitate pre-trial preparation. This conduct can only be labelled as "flagrant bad faith" and "callous disregard" of the rules.

Dismissal has been recognized by this Court and by the Court of Appeals for the Ninth Circuit as the appropriate sanction for similar actions and rule violations. In *Chism v. National Heritage Life Ins. Co.*, 637 F.2d 1328 (9th Cir. 1981), the Ninth Circuit Court of Appeals upheld a dismissal by this Court. The case involved a suit for damages under an insurance policy. The Court ordered a pre-trial conference for July 17, 1978, warning that the rules of the court concerning the conference must be complied with or sanctions would be imposed. The conference was continued at the request of both parties until August 21, 1978 because of discovery problems. Plaintiff, however, failed to respond timely to defendant's discovery requests. Plaintiff also failed to prepare timely, as required by the local rules, a proposed pre-trial conference order; failed to provide defendants with a list of witnesses and exhibits in violation of Local Rule 9; failed to file timely its memorandum of fact and law; and filed responses to various motions late. This Court ordered dismissal, rejecting plaintiffs' arguments that the failure should be excused because it had obtained new counsel and intended to file a motion to have the case remanded to state court. *Id.* at 964-65.

The Court of Appeals for this circuit upheld the trial court's dismissal. The Appeals Court ruled that:

The record, as summarized earlier in this opinion, makes it manifest that the sanction of dismissal with prejudice was applied only after a persistent pattern of abusive conduct on plaintiff's

part. Chism or his attorneys continually flouted discovery rules, failed to comply with pre-trial conference obligations, and repeatedly violated the local rules of court. This conduct continued even after a representation to the court that discovery would proceed expeditiously, after a clear warning that the court condemned infractions of the pre-trial conference rules, and despite repeated efforts by National to secure compliance without necessity of intervention by the trial court. Plaintiff's misconduct prejudiced his opponent, violated important policies designed to insure efficiency in legal proceedings at the trial court level and persisted to the very end.

* * *

Appellant's actions also undermined effective utilization of the pre-trial conference procedure. Indeed, failure to provide discovery, lists of witnesses and of exhibits preclude any meaningful pre-trial conference.

Id. at 1331-32; *Accord, Transamerica Corp. v. Transamerica Bankgrowth Corp.*, 627 F.2d 963 (9th Cir. 1980) (in which the court upheld a default judgment against a defendant for failure "(a) to prepare in good faith for the pre-trial conference, and (b) to have complied in good faith with the rules governing pre-trial discovery procedures as required by the rule" which are similar to the rules of this Court); *Crocker Natl. Bank v. M.F. Sec. (Bahamas), Ltd.*, 104 F.R.D. 123, 127 (C.D. Cal. 1985) (dismissing an action under Local Rule 27.2 where defendants failed to file timely answers to the complaint, failed to provide, as required by Local Rule 6, copies of any relevant documents contemplated to be used in support of their claim, and failed to appear at depositions).

The present case is virtually indistinguishable from *Chism*. As with the plaintiffs in *Chism*, plaintiffs here re-

fused to cooperate in discovery and failed to comply with Local Rule 9 by providing Irwin with witness and exhibit lists. Moreover, plaintiffs in this case have also failed to respond within the required seven days after the Rule 7 meeting; failed to produce documents at the early meeting of counsel in violation of Rule 6; and failed to be prepared for or participate in the July 31, 1985 meeting pursuant to Rules 7 and 9. As the Court recognized in *Schism*, this is a "persistent pattern of abusive conduct" which warrants dismissal.

Other courts have also recognized the propriety of dismissal where a party failed to participate in pre-trial preparations under the rules of the Court. For example, in *American Elecs. Laboratories, Inc. v. Dopp*, 369 F.Supp. 1245 (D. Del. 1974), the court dismissed a breach of contract action for the failure of defendant to participate in the drafting of a pre-trial order or to take a meaningful part in a pre-trial conference. After some delays in that case for substitution of counsel and amendments to the complaints, a pre-trial conference was held in which defense counsel failed to cooperate. Specifically, the plaintiff prepared a pre-trial order which defense counsel failed to sign as required by the local rules. The court then ordered defense counsel to sign or participate in preparing a new pre-trial order. Defense counsel failed to do either. Accordingly, the court entered a default judgment.

Similarly, in *Dalrymple v. Pittsburgh Consolidation Coal Co.*, 24 F.R.D. 260 (W.D. Pa. 1959), the District Court denied plaintiff's request to set aside a judgment of dismissal for lack of prosecution and compliance with the pre-trial orders. The plaintiff failed to comply with the Local Rule 5-II which required plaintiff to prepare and serve on defendant a pre-trial brief, witness and exhibit lists, and certain other materials. The court, dismissing the case, noted that:

Rule 5-II, promulgated under Rule 16 and 83 of the Federal Rules of Civil Procedure was designed to promote the expeditious processing of civil litigation in this court . . . unless appropriate sanctions are firmly imposed by the Court for flagrant disobedience of its orders, the statutory purpose of Rule 5-II will be entirely frustrated and the process of litigation in this District hopelessly impeded.

Id. at 262; The court held that absent proof that the failures to comply were the result of "mistake, inadvertance, surprise, or excusable neglect," dismissal was proper. *Id.*; See also *Marriott Homes, Inc. v. Hanson*, 50 F.R.D. 396 (W.D. Mo. 1970) (default judgment for failure to supply witness and exhibit lists and to appear for depositions); *Pioche Mines Consol., Inc. v. Dolman*, 333 F.2d 257, 266, 270 (9th Cir. 1964) (default judgment because defendant's president refused to appear at a deposition or submit to medical examinations concerning health problems that prevented him from appearing at deposition); *Burris v. Sun Ref. and Mktg. Co.*, 103 F.R.D. 586 (E.D. Ark. 1984) (dismissal with prejudice for failure to comply with discovery requests); *Snead v. Automation Indus., Inc.*, 102 F.R.D. 823 (D. Md. 1984) (dismissal with prejudice because of numerous delays occasioned by plaintiff's pattern of non-cooperation and failure to heed "warnings or obey court orders").

Accordingly, plaintiffs' continuous refusal to cooperate in this matter warrants dismissal. Any milder sanction would signal these plaintiffs and other litigants in this District that the Court's rules can be flouted without any serious repercussions. Although dismissal is a drastic sanction—and would not be warranted if there was a single or inadvertant failure to comply with the Rules—dismissal is warranted here where there has been a continuous pattern of non-compliance with the rules, and that non-compliance has significantly prejudiced Irwin in preparing their

defense and counterclaims. Moreover, plaintiffs have needlessly forced Irwin to incur expenses and attorney fees in undertaking the Rule 7 and Rule 9 conferences and in preparing the Early Meeting report under Rule 6. These costs and fees should be reimbursed.

V. CONCLUSION

Given the deliberate and continuous nature of plaintiffs' refusals to cooperate in the pre-trial stages of this matter and their numerous violations of the Rules of this Court, dismissal is warranted. For these reasons, as expressed above, Irwin respectfully requests this Court to issue an order dismissing this case and ordering plaintiffs to pay the costs, along with reasonable attorney fees, that Irwin incurred in preparing the early meeting report under Rule 6, and in attending the Rule 7 and Rule 9 meetings.

Respectfully submitted,

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By: Jeffrey W. King
Jeffrey W. King
Attorneys for Defendants and
Counter-claimants Professional Real
Estate Investors, Inc., and Kenneth
F. Irwin

DECLARATION OF LAURA J. BARNES

I, Laura J. Barnes, declare:

1. I am a member of the Bar of this Court, and am an associate with the law firm of Michael J. Dennis Law Corporation. I have been local counsel representing defendants and counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin in this matter since approximately February, 1983. I have knowledge of facts set forth below, and, if called as a witness, I would testify to these facts, based upon my knowledge.

2. On or about October 30, 1984, I attended a hearing in this matter before this Court. At the conclusion of that hearing, I confronted plaintiffs' counsel concerning the Early Meeting of Counsel that was required under the Local Rule 6 of this Court. Specifically, I stated that I understood it to be plaintiffs' obligation to set up the meeting under that rule. Plaintiffs' counsel responded that she knew it was her obligation but did not make any attempt to set up the meeting.

3. I attended, with co-counsel Jeffrey W. King, the meetings, pursuant to Local Rules 7 and 9, on July 31, 1985. These meetings were held in my office in Los Angeles, California.

4. At the meetings on July 31, 1985, plaintiffs' counsel initially refused to discuss defendants' discovery request or the proposed stipulation, pursuant to Local Rule 7.15.2, that was provided to plaintiffs' counsel. Only after we insisted did plaintiffs' counsel make any attempt to go through the individual document requests and plaintiffs' objections. Plaintiffs, however, put a time limit on this discussion of approximately 15 minutes, after which time they left the meeting. Plaintiffs indicated they would let us know promptly at the beginning of the week of August 5, 1985 whether they would reconsider providing information pursuant to the document request. To date, I have

heard nothing from plaintiffs concerning the outstanding discovery request.

5. At the July 31, 1985 meeting, Mr. King produced for plaintiffs, pursuant to Local Rule 9, a document list, a list of witnesses, a list of expert witnesses, and a proposed stipulation of facts. Counsel for plaintiffs indicated that they were not prepared to discuss any of these materials at the meeting. In addition, they indicated they were not prepared for the meeting and had no list of witnesses or documents to provide to us at that time. Mr. King requested that plaintiffs' counsel give us a list of documents and/or witnesses orally, yet, plaintiffs refused to do so. Mr. King also requested that we go through the stipulation, and plaintiffs again refused to do so. Instead, they said they would take the stipulation and let us know by early in the week of August 5, 1985 what particular facts they were willing to stipulate. To date, I have heard nothing from plaintiffs with regard to this matter.

I DECLARE, under penalty of perjury, that the foregoing is true and correct and that this declaration was executed this 9th day of August, 1985 in Los Angeles, California.

Laura J. Barns
LAURA J. BARNs

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January 10, 1985

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Suite 300
Beverly Hills, CA 90210

Re: Columbia Pictures Industries, Inc., et al. v. Professional Real Estate Investors, Inc., et al. Case No. 83-2594 WPG

Dear Dorothy:

Enclosed for your review is the proposed Joint Report of the Early Meeting. Please call me on Friday, January 11, 1985, to inform me whether or not we can move forward and file this joint report.

It is my understanding that you will not be producing any documents to me when we meet for Mr. Irwin's deposition in Palm Springs. As I indicated, I thought that was the obligation under your Local Rules.

If you have any questions, please do not hesitate to contact me.

JA-138

Sincerely,

Jeffrey W. King
JEFFREY W. KING

JWK:pt
Enclosure

JA-139

**MICHAEL J. DENNIS
LAW CORPORATION
4TH FLOOR
619 SOUTH OLIVE STREET
LOS ANGELES, CALIFORNIA 90014
(213) 624-5676**

February 15, 1985

Dorothy Wolpert
Nutter, Bird, Marella, Boxer, Wolpert & Matz
340 North Camden Drive, Suite 300
Beverly Hills, CA 90210

Re: Columbia Pictures Industries, Inc., et al. v. Profes-
sional Real Estate Investors, Inc., etc., et al.

Dear Ms. Wolpert:

Confirming our telephone conversation of today in regard to plaintiffs' responses to defendants' document requests, you stated that most of the plaintiffs' headquarters are located here, in southern California, and some are located in New York. You also stated that you would find out the approximate number of documents to be produced in each location.

Your prompt attention to this matter is appreciated.

Very truly yours,

MICHAEL J. DENNIS LAW CORPORATION

Laura J. Barns
by Laura J. Barns

fl

cc Jeffrey King, esq.

Collier, Shannon, Rill & Scott
Attorneys-at-Law
1055 Thomas Jefferson Street, N. W.
Washington, D. C. 20007

Telephone: (202) 342-8400
Telex: 440665 CSRS UI
Writer's Direct Dial Number

(202) 342-8510

March 1, 1985

Mrs. Dorothy Wolpert, Esq.
Nutter, Bird, Marella, Boxer,
Wolpert & Matz
340 North Camden Drive
Suite 300
Beverly Hills, California 90210

Re: Columbia Pictures, Inc. et al. v. Professional Real
Estate Investors, Inc. et al., (Civ. No. 83-2594 WPG)

Dear Mrs. Wolpert:

I am in receipt of and have thoroughly reviewed the objections of plaintiffs to the document requests of Professional Real Estate Investors, Inc., and Kenneth Irwin ("PREI"). This letter constitutes a request under Rule 7.15.1 of the Local Rules of Procedure for the United States District Court for the Central District of California for a meeting to resolve the discovery disputes. Please contact me immediately to set up the requisite conference. If we are unable to resolve the discovery problems identified below, we will file a motion to compel production at the law offices of Michael J. Dennis of all documents requested.

Plaintiff's have refused to produce any documents responsive to twenty-eight of the forty document requests

and have refused in part to produce documents responsive to eleven of the remaining twelve requests. For your convenience I have briefly listed below our responses to plaintiffs' objections. Please reconsider plaintiffs' position on each request so that we may avoid needless dispute.

1. Plaintiff's have refused to produce the documents at the law offices of Michael J. Dennis. Instead plaintiffs stated that the documents will be produced at plaintiffs' various corporate headquarters which are scattered throughout Los Angeles and New York City. (General Objection No. 4). Fairness dictates that plaintiffs, who chose to file this suit jointly and filed it in the Central District of California, not require defendants to travel across the country in order to review and copy the requested documents. Moreover, you previously insisted on behalf of your claims that PREI produce documents at the site of the deposition, rather than at PREI's corporate headquarters. We complied with your request and ask for the same courtesy in return.
2. Plaintiffs objected, on the basis of attorney-client privilege, to thirty-nine of the forty requests. (General Objection No. 1). Plaintiffs objections, however, fail to identify the documents and consequently do not give PREI any basis on which to assess your claim of privilege. The objection fails to meet the requisite legal standard for a sufficient claim of attorney-client privilege.
3. Plaintiffs have refused to produce any documents relating to PREI's counterclaims (Request Nos. 20 through 29, 32, 33 and 39). PREI is entitled to discovery on the counterclaims and no basis appears in the record of this case for denying PREI the opportunity to pursue those claims.
4. Plaintiffs have also refused to produce documents relating to the specific allegations in the complaint. It

is difficult to understand the legal basis for the refusal to produce these documents. The grounds which were given, (such as the documents are already in the possession of PREI and the requests are vague, ambiguous, or premature) are frivolous.

5. Plaintiffs have refused to produce most of the requested discovery on the affirmative defenses. These are not grounds to refuse PREI discovery on these defense.

I look forward to the opportunity to meet with you to resolve this matter without resort to the Court. In the meantime, I would appreciate if you would please identify the number of documents plaintiffs are willing to produce. Our desire to obtain the documents which plaintiffs are willing to produce, even though they only constitute a partial production, does not in any way imply that PREI waives its right to seek full production.

Sincerely,

Jeffrey W. King
Jeffrey W. King

JWK/bls

Collier, Shannon, Rill & Scott
Attorneys-at-Law
1055 Thomas Jefferson Street, N. W.
Washington, D. C. 20007

Telephone: (202) 342-8400
Telex: 440665 CSRS UI
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March 12, 1985

Mrs. Dorothy Wolpert, Esq.
Nutter, Bird, Marella, Boxer,
Wolpert & Matz
340 North Camden Drive
Suite 300
Beverly Hills, California 90210

Re: Columbia Pictures, Inc. et al. v. Professional Real
Estate Investors, Inc. et al., (Civ. No. 83-2594 WPG)

Dear Mrs. Wolpert:

I have not heard from you since my letter of March 1, 1985 concerning the objections of the plaintiffs to the document requests of Professional Real Estate Investors, Inc. and Kenneth Irwin. Under the local rules of the court, we were to confer on the dispute over discovery within ten days of my letter. You received the letter on March 4, 1985. The ten days will be over on Thursday, March 14, 1985. I would appreciate it if you would contact me by that time so that we can arrange to confer on this matter. If I do not hear from you by Thursday, I will assume that you do not intend to confer on these discovery disputes.

Sincerely,

Jeffrey W. King
JEFFREY W. KING

DECLARATION OF PATRICK J. COYNE

I, Patrick J. Coyne, declare:

1. I am a member of the Bar of the District of Columbia, and I am an associate with the law firm of Collier, Shannon, Rill & Scott. Since approximately September 1984, I have assisted Jeffrey W. King in the matter of *Columbia Pictures Industries, Inc., et al. v. Professional Real Estate Investors, Inc., et al.*, (Case No. 83-2594 W.P.G.). I have knowledge of the facts set forth below, and, if called as a witness, I would testify to these facts based upon my knowledge.

2. During the months of April, May, and June, 1985, I attempted to make and had numerous contacts with plaintiffs' counsel concerning defendants' request for production of documents. During these conferences, many of which were followed up by letters, I attempted to obtain plaintiffs' cooperation in the discovery process.

3. During a telephone conversation with plaintiffs' counsel on June 4, 1985, plaintiffs' counsel expressly stated that plaintiffs were "not cooperating" in discovery.

4. Notwithstanding plaintiffs' various promises, very few documents were ever produced.

5. During the months of June and July, 1985, I discussed with plaintiffs' counsel and attempted to schedule a Meeting of Counsel pursuant to Local Rule 7.15.1.

6. During a June 5, 1985 telephone conversation, plaintiffs' counsel indicated to me that she would be in Washington, D.C. in late-June and that it might be possible to hold the required meeting of counsel at that time. Plaintiffs' counsel, however, did not respond to my acknowledgement to hold the meeting in Washington. It was not until after plaintiffs' counsel returned to the West Coast that she sent a letter informing us that she had been unable to meet with us.

7. On July 24, 1985, I conferred with plaintiffs' counsel by telephone and we agreed to hold the pretrial meeting of counsel, required by Local Rule 9, and the meeting of counsel concerning the discovery disputes, pursuant to Local Rule 7.15.1, in Los Angeles, California on July 31, 1985 at the law offices of Michael J. Dennis Law Corporation. Plaintiffs' counsel expressly agreed that the meeting of counsel pursuant to Local Rule 7 would be held in conjunction with the pretrial meeting of counsel pursuant to Local Rule 9.

8. I had subsequent conversation with plaintiffs' counsel on July 25, 1985, although with another member of the firm representing plaintiffs. During that conversation, plaintiffs' counsel expressly stated that he understood the meeting was scheduled for July 31, 1985. We agreed that the meeting would be held at 3:00 p.m.

I DECLARE, under penalty of perjury, that the foregoing is true and correct and that this declaration is executed this 8th day of August, 1985, in Washington, D.C.

Patrick J. Coyne
PATRICK J. COYNE

DECLARATION OF JEFFREY W. KING

I, Jeffrey W. King, declare:

1. I am a member of the Bar of the District of Columbia and a member of the law firm of Collier, Shannon, Rill & Scott. I have been principally responsible for the defense of the case *Columbia Pictures Industries, Inc. v. Professional Real Estate Investors, Inc.* (Case No. 82-2594 W.P.G.), since this case was initiated. I have firsthand knowledge of the facts set forth below and, if called as a witness at any hearing or trial, would testify to these facts based upon my firsthand knowledge.

2. In conjunction with the continuation of the deposition of Kenneth F. Irwin in early-January, 1985, the parties held an Early Meeting of Counsel, pursuant to Rule 6 of the Local Rules of the U.S. District Court for the Central District of California. At that meeting, plaintiffs and their counsel did not produce any documents.

3. In early-July of this year, I was informed that this court had issued an order scheduling a pretrial conference for September 9, 1985. After not hearing from plaintiffs for approximately three weeks, one of my colleagues, Patrick J. Coyne, and I repeatedly attempted to contact plaintiffs' counsel to set up a meeting, as required under the rules of this Court, for July 30 or 31, 1985. Plaintiffs' counsel was repeatedly unavailable when we called but returned our calls and spoke with Mr. Coyne.

4. I attend the meeting on July 31, 1985 at the law offices of Michael J. Dennis Law Corporation, my counsel, in Los Angeles, California. Laura Barns, my local counsel, was also in attendance. I traveled to California for the sole purpose of attending these meetings.

5. At the meeting on July 31, 1985, plaintiffs' counsel initially refused to discuss our discovery request or the proposed stipulation under Local Rule 7.15.2. Only after we insisted did plaintiffs' counsel even attempt to go

through the individual document request and plaintiffs' objections. Plaintiffs put a time limit of approximately 15 minutes on this discussion, after which time they left the meeting. Plaintiffs indicated they would let us know promptly at the beginning of the week of August 5, 1985 whether they would reconsider providing information pursuant to the document request. To date, I have heard nothing from plaintiffs concerning the outstanding discovery request.

6. At the July 31, 1985 meeting, we also produced for plaintiffs, pursuant to Local Rule 9, a document list, a list of witnesses, a list of expert witnesses, and a proposed stipulation of fact. Counsel for plaintiffs indicated that they were not prepared to discuss any of these materials at the meeting. In addition, they indicated they were not prepared for the meeting and had no list of witnesses or documents to provide to us at that time. I requested that they give us a list of documents and/or witnesses orally of facts, and plaintiffs refused to do so. I also requested that we go through the stipulation of facts, and plaintiffs again refused to do so. Instead, they said they would take the stipulation and let us know early in the week of August 5, 1985 what particular stipulations they were willing to agree to. To date, I have heard nothing from plaintiffs with regard to this matter.

I DECLARE, under penalty of perjury, that the foregoing is true and correct and that this declaration was executed this 8th day of August, 1985, in Washington, D.C.

Jeffrey W. King
JEFFREY W.
KING

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Case No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

PLAINTIFFS' MEMORANDUM IN OPPOSITION TO
DEFENDANTS' MOTION TO COMPEL

DATE: September 9, 1985

TIME: 10:00 a.m.

COURTROOM: 23

[Table of Contents omitted in this printing]

I

INTRODUCTORY STATEMENT

Defendants' discovery motion should be rejected for each of these reason:

1. *Defendants Failed to Follow the Required Local Rules Before the Bringing of This Discovery Motion.*

As established in the concurrently filed Wolpert and Boxer declarations, the meeting between counsel on July 31, 1985 was called by defendants only to discuss the pre-

trial conference order. Defendants, after many months of casual discussions about outstanding discovery issues, never notified plaintiffs, either orally or by letter, that the purpose of the July 31, 1985 meeting was to discuss document discovery. Written notice requesting a discovery meeting and "specifying the terms of the discovery order sought" was required within 10 days prior to the July 31, 1985 meeting under Local Rule 7.15.1, but it was not given. For that reason, plaintiffs were not represented at the meeting by their attorney responsible for the handling of discovery matters.

Since new counsel will be representing all plaintiffs in this action,¹ it is particularly appropriate that the Court defer any ruling on the discovery motion until plaintiffs' new counsel and defense counsel have had an opportunity to meet and confer as required by the local rules.

2. *The Great Bulk of Plaintiffs' Objections to Defendants' Document Production Requests Relate Solely to Antitrust Issues Which Will, In All Likelihood, be Mooted by the Court's Rulings on the Cross-Motions for Summary Judgment Scheduled to be Heard in November; Also, As A Matter Of Law, Most Of Defendants' Vast Requests Are Not Relevant.*

In the telephonic hearing on August 14, 1985, the Court established a briefing and hearing schedule on plaintiffs' anticipated motion for summary judgment on the copyright issues and the cross-motion defense counsel represented "in all probability" he would file. As demonstrated in Section III below, the court's determinations of those motions and its consideration of the issues will in all likelihood

¹ As the Court was previously advised, Steven Kroft of Rosenfeld, Meyer & Susman is being substituted as counsel of record for all plaintiffs. Plaintiffs anticipate that the formal documentation will be presented to the Court within a few days and Mr. Kroft will appear for plaintiffs at the September 9 hearing on this motion.

moot all of defendants' vast discovery requests directed to antitrust issues.

If the Court grants plaintiffs' summary judgment motion on the copyright issue, defendants have conceded that their antitrust defense and counterclaims would be defeated as a matter of law. Furthermore, as Section III demonstrates, even if the Court were to deny plaintiffs' motion for summary judgment its inevitable conclusion, after considering the current state of the law, that plaintiffs' claims are being brought with probable cause would as a matter of law destroy defendants' position on the antitrust issues. Since the massive discovery requests by defendants seek to establish plaintiffs' subjective intent, they seek irrelevant, albeit extremely burdensome, document production.

3. Plaintiffs' Objections Are Well Taken.

An analysis of each of the disputed discovery requests is contained in Section IV below. When the requests are considered individually, plaintiffs submit that their positions are well taken. And, as also demonstrated in Section IV, plaintiffs have not chosen to rely on their well-taken objections to many of the requests relating to copyright issues but instead have agreed to produce the requested documents.

II

DEFENDANTS' MOTION SHOULD BE TAKEN OFF CALENDAR BECAUSE THEY HAVE NOT INITIATED THE MEET AND CONFER CONFERENCE BETWEEN COUNSEL MANDATED BY LOCAL RULE 7.15.1.

When defendants requested a meeting on July 31, 1985, the stated purpose of that meeting did not include a discussion of discovery.² For that reason the attorneys who

² Wolpert declaration, ¶¶ 9-10; Boxer declaration, ¶ 7.

attended that meeting for plaintiffs did not include the lawyer responsible for discovery matters.³

Notwithstanding defendants' failure to advise plaintiffs' counsel of their intent to hold a Local Rule 7.15.1 meeting on July 31, 1985 and their failure to give the written notice required by that rule, defendants did attempt a general discussion of disputed documents at the meeting.⁴

Following the July 31, 1985 meeting, and at least a week before the motion to compel was served, plaintiffs' counsel advised defense counsel that new counsel would be handling the matter on behalf of plaintiffs. For their own tactical reasons, defendants chose to press forward with a discovery motion rather than wait for new counsel to become familiar with the case and be in a position to negotiate disputed discovery issues.⁵

The presence of new counsel for plaintiffs makes it even more appropriate than in the usual case that the court require that the parties confer pursuant to the provisions of Local Rule 7.15.1 before burdening the court with discovery disputes. New counsel enjoys the complete confidence of plaintiffs and will obviously be in a much better position to consider and recommend compromises on disputed discovery issues than departing counsel.

No prejudice will flow to defendants from requiring such a conference since all parties have acknowledged that the pending motions for summary judgment may resolve this entire case,⁶ and the Court has recently taken off calendar

³ Wolpert declaration, ¶ 10.

⁴ Boxer declaration, ¶ 15.

⁵ Because Mr. Kroft, new counsel for plaintiffs, just returned from vacation on August 19, 1985, these papers are being prepared by original counsel for plaintiffs. As indicated previously, it is anticipated Mr. Kroft will argue on plaintiffs behalf at the September 9, 1985 hearing.

⁶ Boxer declaration, ¶ 13.

the previously scheduled September 9, 1985 pre-trial conference.

III

THE ANTITRUST DISCOVERY WOULD BE UNDULY TIME CONSUMING AND BURDENSOME, AND IS UNNECESSARY

Defendants have filed counter-claims and defenses based on one central assertion: that the main action was filed in bad faith. The discovery which is requested on these counter-claims is unduly burdensome and time consuming. Further, as will be demonstrated below, the good faith of the plaintiffs is established as a matter of law if the main action is brought with probable cause, and until the merits of the main action are determined, discovery on the counter-claims should not go forward.

1. *The Requested Discovery is Unduly Burdensome and Time Consuming.*

Paragraphs 20 through 39 of the document request are directed toward discovery on the bad faith issues raised by defendants' counter-claim. Despite the limited nature of the issue running through and underpinning all of the counter-claims and related defenses, defendants seek discovery on matters far afield from the good faith of the plaintiffs in bringing this particular lawsuit.

The documents called for by the request are extensive, and as demonstrated below largely irrelevant, but the real burden lies in the documents and files which have to be examined in order to find relevant and responsive material, if any exist. In particular, the following files of each studio will have to be searched:

(1) The correspondence, contract, and expense files of all executives operating in the home video area of each company (Request Nos. 20, 21, 24-27, and 35);

(2) The correspondence and contract files for every executive who has ever had contact with Sony, Bell & Howell, RCA or Pioneer, the manufacturers of video cassettes and video discs for the studios (Request Nos. 21, 22, and 38);

(3) Phone records for the entire studio (Request No. 28);

(4) The correspondence files for every executive at each studio who has ever had contact with the Motion Picture Association of America, the World Wide Piracy Committee of that association, or any of its other committees (Request No. 27, 29, and 36);

(5) All contracts files and correspondence files of any employee who has ever sent or received anything from any theatrical motion picture exhibitor, any television station, or any television network (Request No. 33); and

(6) The calendars, correspondence files, and phone logs for every studio executive (Request No. 34).

Clearly, this extraordinarily broad document request was designed with no other purpose than to harass and punish the plaintiffs for bringing this lawsuit, and to engage in a fishing expedition through the studios' books and records.

As shown in the concurrently filed declaration of Robert J. Rose, the culling, collection and copying of the materials requested by La Mancha would require a team of paralegals at each of the studios, working on nothing else for four months.

2. *The Good Faith Of The Plaintiffs Is Demonstrated If The Main Action Is Brought With Probable Cause; Therefore Discovery Should Be Delayed Until After Consideration Of The Main Action On The Merits.*

At the July 31, 1985 meeting, defendants' counsel conceded that if the main action were decided against his clients, the good faith of the plaintiffs in bringing the

action would be established, and the counter-claims would fail. Defendants' position is well taken, and in accord with the law. E.g., *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 161 (3d Cir. 1984) ("success on the merits of their copyright infringement action demonstrates clearly that . . . it would be impossible for the appellants to prove bad faith"); *Edward B. Marks Music Corp. v. Colorado Magnetics, Inc.*, 497 F.2d 285, 291 (10th Cir. 1974) ("any suggestion" of sham or bad faith disappears after success on merits). Therefore, should plaintiffs win the motion for summary judgment, any counter-claim discovery will have been futile and to no avail. As shown below, the same is true if the action is unsuccessful, but brought with probable cause.

By its very nature the function of a copyright is to grant the owner a "limited monopoly" with respect to the copyrighted material. The "limited monopoly" bestowed by a copyright includes the right to exclude others from unauthorized uses of the copyrighted materials. *Lawlor v. National Screen Service Corp.*, 270 F.2d 146 (3d Cir. 1959), cert. denied, 362 U.S. 922 (1960); *Inge v. Twentieth Century-Fox Film Corp.*, 143 F.Supp. 294 (S.D.N.Y. 1956). In particular, with respect to motion pictures, § 106 of the Copyright Act grants the owner a copyright of a motion picture the exclusive right to publicly perform the motion picture. 17 U.S.C. § 106(4). Therefore, by reason of their ownership of copyrights in the motion pictures in question, plaintiffs have the right to bring this suit to enjoin a public performance of their works. *Redd Horne, supra*, 749 F.2d at 161; *Alberto-Culver Co. v. Andrea Dumon, Inc.* 466 F.2d 705, 711 (7th Cir. 1972); *Edward B. Marks, supra*, 497 F.2d at 291.

In *W. Goebel Porzellanfabrik v. Action Industries, Inc.*, 589 F.Supp. 763 (S.D.N.Y. 1984) the plaintiff brought a copyright infringement action against Action Industries. In response, the defendant, as in this case, filed antitrust counter-claims alleging that the suit was brought in bad

faith, and itself was an antitrust violation. In ruling on a motion to dismiss, the Court stated:

"the Court notes that lawsuits have only rarely been treated as part of an antitrust conspiracy. Where the holder of a valid copyright brings suit in good faith and based on reasonable grounds, '[w]hatever other anti-competitive activity the [copyright holder] may be guilty of, the [copyright law] would seem to authorize him to bring such a non-frivolous suit.'" 589 F.Supp. at 767.

Only if the suit is brought in bad faith, i.e., as a "sham," can antitrust liability ever attach. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). The question is, how does one measure good faith? If the subjective intent of the plaintiff must be explored in every case, then in every infringement action, which by its nature has the necessary purpose of preventing competition by the infringer, extensive discovery on the copyright holder's motive could be taken. On the other hand, if an objective standard based on the state of existing law is used, after the Court considers the merits of the infringement action, it can determine whether the plaintiff had probable cause to bring the suit.

The case law and the policy underpinning the Copyright Act clearly show that the existence of probable cause is the key in measuring good faith, and not the subjective intent of the plaintiff. In *Chest Hill Co. v. Guttman*, 1981-2 Trade Cases (CCH) ¶ 64,417 (S.D. Ohio 1981), the Court was also faced with an antitrust claim alleging bad faith resort to litigation. In granting summary judgment against the antitrust claim the Court stated that:

"The test of baselessness is whether the defendant had probable cause in bringing the claims—the same test that is applied in malicious prosecution actions. . . . This is an objective and not a subjective standard. . . . A determination

that a antitrust defendant filed actions without probable cause is an absolute prerequisite to bringing its conduct within the sham exception to the *Noerr-Pennington* doctrine." 1981-2 Trade Cases at p. 75,055. (emphasis added).

The Court in *Chest Hill* went on to hold that "[e]xcept under the rarest of circumstances" the fact that the claims in the main action had not "been fully tested on the merits by any court. . . . alone should preclude a finding of baselessness." 1981-2 Trade Cases at p. 75,057. This, of course, would obviously preclude any action on the counter-claims until the main action is resolved since: "a determination of baselessness of an action by an antitrust court before the original court has ruled on its merits should be made only under extreme circumstances and with extreme caution, with the principle always in mind that the sham exception should be construed narrowly so as to protect the First Amendment right of access to the courts." 1981-2 Trade Cases at 75,055-056.

This standard comports with public policy, since "[r]egardless of intent, parties can be held liable only if they employ means of influencing governmental action that are in themselves illegal or reprehensible." R. Bork, *The Antitrust Paradox*, p. 359 (1978). This applies with even more force when the main action is an intellectual property infringement case, since the pendency of antitrust counter-claims might kill legitimate patent, copyright and trademark enforcement efforts because "of fear of the vexations and punitive consequences of treble-damage suits." *Handgards, Inc. v. Ethicon, Inc.* 601 F.2d 986, 996 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980) (higher standard necessary for antitrust counter-claim in patent litigation); *Caplan v. American Baby, Inc.*, 582 F.Supp. 869, 897 (S.D.N.Y. 1984) (copyright).

Quite simply, even if the motive of the plaintiffs was to prevent competition in distribution of motion pictures to hotels, the counter-claims must fail:

"A party's assertion of non-frivolous legal positions before courts or other adjudicatory bodies does not violate the antitrust laws even if there are anti-competitive motives for doing so." *Ortho-Vision, Inc. v. Home Box Office*, 474 F.Supp. 672 (S.D.N.Y. 1979).

Therefore, regardless of the outcome of the main action, so long as the Court (which will be presented with summary judgment motions on the issue of copyright infringement) determines that the main action had "sufficient merit to . . . defeat a cause of action for abuse of process," *Alberto-Culver, supra*, 466 F.2d at 711, was brought "in a manner which is in accordance with the spirit of the law," *Semke v. Enid Automobile Dealers Association*, 456 F.2d 1361, 1367 (10th Cir. 1972), and was not "clearly and palpably lacking in probable cause," *Chest Hill, supra*, 1981-2 Trade Cases at p. 75,057, the counter-claims must be dismissed. See also *Classic Films Museum, Inc. v. Warner Bros., Inc.* 523 F.Supp. 1230 (D. Me. 1981).

In summary, regardless of the outcome of the main action, in the interest of the efficient administration of this litigation, the discovery on the counter-claims should be delayed until the Court can rule on the existence of probable cause in the main action. If, after ruling on summary judgment, the Court concludes either that plaintiffs prevail or that, given the current state of applicable copyright law, the litigation was not clearly and palpably lacking in probable cause, then almost all of the defendants requested document discovery will be rendered irrelevant, and the massive burden of providing it avoided.

IV

**THE DISPUTED DOCUMENT PRODUCTION REQUESTS
ARE OVERLY BROAD, VAGUE, UNDULY BURDENSOME
OR OTHERWISE OBJECTIONABLE**

Additional reasons why plaintiffs objected to defendants' document production requests are separately discussed below:

General Objection No. 1.

Defendants' memorandum fails to advise the court that plaintiffs have already agreed to prepare the list of documents which are being withheld because of attorney-client privilege or the work product doctrine. Only the change of counsel for plaintiffs which has delayed preparation of that list.

If, following receipt of that list, defendants then believe that they have the right to further information concerning these documents, that would be the appropriate time to seek to have the court inspect them *in camera* to determine if the claims of privilege are well taken.

General Objection No. 2.

In footnote 6 of defendants' moving papers, defendants acknowledge that their document request is limited to materials in plaintiffs' "possession, custody or control." Accordingly, while plaintiffs' objection is well taken, it is no longer of any moment since the parties are in complete agreement as to the proper scope of defendants' document production request.

General Objection No. 3.

This general objection merely preserves plaintiffs' rights to establish that specific document production requests, such as those on the antitrust issues, are unduly burdensome.

General Objection No. 4.

This objection merely preserves plaintiffs' right to produce their documents, if they are voluminous, at their corporate headquarters located either in Los Angeles (where defendants have retained local counsel) or in New York City (close to defendants' principal counsel in Washington, D.C.). To date, plaintiffs have not needed to exercise the right to produce documents at their corporate headquarters, but they preserve such a right if defendants obtain the unusually voluminous discovery they seek.

Document Request No. 1.

The broad, irrelevant nature of this document production request is obvious. As phrased, it requires tons of documents about every aspect of the operations of the motion picture studios as well as they parent corporation (Coca Cola, in one instance) and all their affiliated and subsidiary corporations (the CBS Network, for example.)

Plaintiffs submit that this request should be limited to current organizational charts, if any, showing the highest executive levels only for their hotel and home use video tape distribution operations.

Document Request No. 2.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 3.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 4.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 5.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 6.

As plaintiffs' objection clearly stated, the request is incomprehensible and unfair because defendants are requesting plaintiffs to supply documentation supporting a *nine word* segment of a five line allegation. In context, the nine words have an entirely different meaning than when they are isolated. It is for that reason plaintiffs correctly objected that the request is incomprehensible because it distorts plaintiffs' allegations.

Document Request No. 7.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 8.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 9.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 10.

At the present time, plaintiffs do not intend to pursue a claim for lost profits. Thus, all this requested discovery would be irrelevant. However, because of the change of counsel for plaintiffs, plaintiffs request the right to alter their position and advise the Court at the September 9, 1985 hearing if they will pursue in pretrial any claim for damages based on lost profits. If they make such an election through new counsel, plaintiffs appreciate that defendants would be entitled to production of documents responsive to this request.

Document Request No. 11.

In paragraph 9 of defendants' answer, they admit that "defendants have acquired possession of videodiscs of feature motion pictures." Because of this admission, plaintiffs rightfully objected that the document request seeks irrelevant material because defendants' acquisition of videodiscs is no longer in dispute.

Document Request No. 12.

Plaintiffs did not object to this request.

Document Request No. 13.

All parties in this case have acknowledged that the central issue in this dispute is whether or not defendants are engaged in or have authorized public performances of plaintiffs' motion pictures. Given that this is the central issue of the case, it is an incredibly overbroad request for defendants to ask for every document "supporting or relating in any way" to this issue.

Document Request No. 14.

This request references paragraph 22 of the complaint which contains, like the prior document request, the allegation that defendant has publicly performed or caused others to public perform plaintiffs' motion pictures. As indicated in the prior discussion, a request for every documents "supporting or relating in any way" to the entire basis of this case is obviously overbroad and unduly burdensome.

Document Request No. 15.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 16.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 7.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 18.

This request references *the entire* complaint. As such, it is obviously overbroad and unduly burdensome.

Document Request No. 19.

This document request is particularly offensive because it requires plaintiffs' counsel to reveal his thought processes

in drafting the complaint. As framed, it would require plaintiffs' attorneys to segregate those documents he relied on and thereby reveal his thought processes and strategy in presenting this case on behalf of plaintiffs.

Document Request No. 20.

This is the first of 19 consecutive document production requests which appear to be directed solely to defendants' antitrust counterclaims or affirmative defenses. (Requests 20 through 39) By this request, defendants purport to seek each of the thousands of documents at each studio plaintiff which "evidences, relates to, or refers" in any way to the business of renting videodiscs or videotapes. Merely to state the request is to establish its absurd overbreadth.

Unless defendants were to limit their request to some meaningful segment of that vast universe of documents—perhaps communications, if any, between one studio and another concerning the use of videotapes or videodiscs by hotels, motels, and other similar public establishments—the request is unreasonably overbroad and seek miles of irrelevant documents.

Document Request No. 21.

In this document request, defendants seek wholly irrelevant material. The focus of the request is the entire business of producing videodiscs or videotapes. Defendants, however, are not in that business. Defendants' business is not the manufacturing of any videodiscs or videotapes, but their performance at their hotel. To the extent that defendants' antitrust claims and copyright misuse affirmative defense can be understood, they are based on claims relating to that activity of *performing* videotapes and videodiscs.

Since the document production request is directed to an entirely different segment of the motion picture business, plaintiffs rightfully asserted their objections.

Document Request No. 22.

While defendants believe their objections are well taken, they do not object to disclosure of that portion of any agreement with RCA which evidences a restriction, if any, on the sale of videodiscs or videotapes to establishments that rent videodiscs or videotapes to the general public. However, defendants cannot establish any justification for additional documentation; plaintiffs therefore object.

Document Request No. 23.

This is another incredibly broad document production request by plaintiff. It requires every studio to reveal any document concerning the business of licensing videodiscs or videotapes. It is obviously so overbroad that it is unduly burdensome. Also, the request would clearly require production of documents that are confidential and contain proprietary information.

Document Request No. 24-29.

These requests are overly broad because they seek all existing documentation about the business of selling or reselling videodiscs or videotapes (an activity not challenged by plaintiffs complaint) and the entire business of renting videodiscs or videotapes. Literally it would require every document every plaintiff has about every one of the corner video rental outlets in the United States. That is why defendants asserted their objections.

Document Request No. 30.

Although plaintiffs objected, they also stated a willingness to produce all documents responsive to the request (except for documents privileged or subject to the work product doctrine). Thus, no order is needed with respect to this request.

Document Request No. 31.

Since defendants have not contended or even suggested that they took any actions or failed to engage in any public

performances of plaintiffs works by reason of the FBI warning, documents relating to that warning are entirely irrelevant to the issues in this case.

Document Request No. 32.

Since defendants have not alleged or suggested that they took any actions or failed in any way to publicly perform any of the motion pictures of plaintiffs by reason of any such "restriction", this request seeks entirely irrelevant material. In addition, like requests 24 through 29, this request seeks literally thousands of contracts, letters and other documents relating to contracts for the entire national industry of videodiscs and videotapes.

Document Request No. 33.

As drafted, Document Request No. 33 requires plaintiffs to produce every document generated by their distribution divisions involved all theatrical and non-theatrical forms of exhibition. Obviously, this is an unduly burdensome task and the materials produced would be irrelevant.

Document Request No. 34.

Document Request No. 34 is written in such a manner that it would require every plaintiff to reveal any communication *on any subject* with any of defendants. As such, it is overly broad and seeks irrelevant and privileged material.

Document Request No. 35.

Since defendants have not alleged or suggested that they took any actions or failed in any way to publicly perform any of the motion pictures of plaintiffs by reason of any such notice or "warning", this request seeks entirely irrelevant material. In addition, like requests 24 through 29, this request seeks literally thousands of contracts, letters and other documents relating to contracts for the entire national industry of videodiscs and videotapes.

Document Request No. 36.

This document request is overly broad and unduly burdensome because it seeks information about claims brought against persons not in a position similarly to the defense in this case, i.e., other hotel and motel operators. To the extent it seeks information about other and entirely different types of illegal and non-authorized public performances (i.e., showing of films in bars or in college dormitories) the request seeks irrelevant and unduly burdensome information.

Document Request No. 37.

This request is overbroad because it is not limited in time to the period prior to the institution of this lawsuit and it seeks privileged information.

Document Request No. 38.

This request is overly broad and seeks irrelevant and unduly burdensome materials because, without limiting the request to any subject matter whatsoever, it asks for all communications of any type whatsoever between very large corporations.

Document Request No. 39.

This request is overly broad because it requires plaintiffs to supply every document relating in any way to their entire defense on the counter-claims.

Document Request No. 40.

Plaintiffs counsel previously advised defense counsel that the objections to this request are withdrawn.

V**NO AWARD OF SANCTIONS IS APPROPRIATE**

Defendants' request for attorneys' fees and costs in bringing their discovery motion should be denied. First,

defendants clearly failed to follow the mandate of the Local Rules by not giving plaintiffs' either written or oral notice of their desire for a "discovery" meeting on July 31, 1985.

Second, although the subject of discovery has been discussed many times informally by the parties, defendants have unreasonably timed their motion to fall during the transition period when new counsel is taking over the case for plaintiffs.

Third, as outlined in this memorandum, most of defendants requests are absurdly overbroad and seek irrelevant material. It is reasonable for plaintiffs to have resisted such overreaching and harassing requests.

For these reasons, defendants submit that it would be not appropriate for the court to make any monetary award in favor of defendants.⁷

VI**CONCLUSION**

For these reasons, defendants' motion should be denied.

⁷ It would be particularly inappropriate for the court to compensate defendants for traveling to Los Angeles on July 31, 1985 since (a) the only purpose of that meeting, as far as plaintiffs knew, was to prepare for the pre-trial, (b) defendants have local counsel whose use would not have required travel, and (c) there was no need for defendants' Washington D.C. counsel to appear in person at a "discovery" meeting.

Respectfully submitted,

Joel E. Boxer

Dorothy Wolpert

Robert J. Rose

NUTTER, BIRD, MARELLA,

BOXER, WOLPERT & MATZ

A Professional Corporation

By Joel E. Boxer

Joel E. Boxer

Attorneys for Plaintiffs

[Certificate of Service omitted in this printing]

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

Case No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., a Delaware corporation; et al.,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., a California corporation dba LA MANCHA PRIVATE CLUB AND VILLAS, KENNETH F. IRWIN AND ERLAND KYLLONEN, Defendants.

PROFESSIONAL REAL ESTATE INVESTORS, INC., a California corporation d/b/a LA MANCHA PRIVATE CLUB AND VILLAS, and KENNETH F. IRWIN,

Counterclaimants,

vs.

COLUMBIA PICTURES INDUSTRIES, INC., a Delaware corporation; et al.,

Counterdefendants.

**PLAINTIFFS' MEMORANDUM IN OPPOSITION TO
DEFENDANTS' MOTION FOR SANCTIONS**

DATE: September 9, 1985

TIME: 9:00 a.m.

COURTROOM: 23

**MEMORANDUM OF POINTS AND AUTHORITIES IN
OPPOSITION TO DEFENDANTS' MOTION FOR
SANCTIONS**

Defendants' motion for sanctions should be denied for each of the following reason:

1. Defendants' position has been mooted by the court's order of August 14, 1985 abating the September 9, 1985 pre-trial conference; accordingly, defendants have not and cannot establish any prejudice flowing from plaintiffs' actions;

2. Defendants have not and cannot demonstrate any violations, in bad faith or otherwise, of the local rules or any court order relating to pre-trial preparation; and

3. Defendants are estopped to bring this motion by their own bad faith; they concede they reneged on their agreement not to oppose plaintiffs' application to the Court to continue the September 9 pre-trial conference.

Each of these factors is sufficient to deny the motion. Taken together, they compel rejection of defendants' application.

Defendants' moving papers incorrectly characterize both the course of this litigation and the events of July 31, 1985. As the court records establish, and as is reflected in the concurrently filed declarations of Dorothy Wolpert and Joel Boxer, this case has been marked by unusual patience by plaintiffs in pursuing their claims while defendants attempted to negotiate for nearly one and one-half years a settlement of the entire lawsuit.¹

Throughout the history of this litigation, three themes abide. First, defendants sought to delay consideration of the merits of this case as long as possible in order to attempt a negotiated resolution; plaintiffs were willing to delay prosecution for that purpose.² Second, all parties agreed from the inception of this case that the foundational copyright claims could probably be resolved by summary

¹ Declaration of Dorothy Wolpert, ¶¶ 3 and 4; Boxer declaration, ¶¶ 2 and 3. Continuances in this case were also obtained by defendants because of their counsel's lengthy illness. Wolpert declaration, ¶ 5.

² Boxer declaration, ¶¶ 2 and 3; Wolpert declaration, ¶ 3 and 4.

judgment.³ Third, a summary judgment ruling on copyright issues may either, as a matter of law or practicality, resolve all other pending issues in the case.⁴

It was because of these three themes that plaintiffs' counsel came to the July 31, 1985 meeting of counsel prepared to discuss two reasonable alternatives to proceeding with the complex pre-trial of this case. One was a comprehensive settlement. Based on the prior course of negotiations between the parties, plaintiffs' attorneys believed they had authority on July 31, 1985 to present a structure for settlement which would probably be accepted and would have quickly led to a termination of the entire case.⁵

When plaintiffs' settlement structure was rejected quickly by defendants at the July 31, 1985 meeting, plaintiffs proceeded in good faith by committing to the bringing of a motion for summary judgment which, especially when combined with defendants' probable counter-motions on the same issues, would have resolved all or most of the issues in this case. Plaintiffs were prepared at the July 31, 1985 meeting to enter into an agreement with defense counsel to establish a schedule for the briefing and hearing of the summary judgment issues.

It is indeed odd that defendants filed this motion when they acknowledged and agreed at the July 31, 1985 meeting that: (1) defendants would "in all probability" bring on a counter-motion for summary judgment; (2) if plaintiffs' motion for summary judgment on copyright issues were granted, it would resolve the entire case; (3) defendants would *not* oppose plaintiffs' application to the court to establish a briefing schedule and continue the pre-trial conference until after a ruling on the motion(s) for summary

³ Boxer declaration, ¶ 11; Wolpert declaration, ¶ 7.

⁴ Boxer declaration, ¶ 13.

⁵ Boxer declaration ¶¶ 4-7, 10.

judgment; and (4) a ruling in favor of either side on the copyright issues on motions for summary judgment would probably lead to a prompt resolution by settlement of the remaining issues in the case.⁶

Plaintiffs' counsel did not anticipate at the July 31, 1985 meeting that, notwithstanding these agreements and acknowledgements, defendants would insist upon going forward with the preparation of the complex and lengthy pre-trial papers which are totally inappropriate or premature when the principal issues are to be resolved by motion, not trial. It is because plaintiffs did not anticipate that defendants would take such an illogical view of this case—i.e., proceed with preparing pre-trial papers only appropriate to a jury trial while simultaneously recognizing that the main issue and perhaps the entire case should be disposed of promptly by summary judgment—that plaintiffs did not join in an exchange on July 31, 1985 of lists of trial witnesses and trial exhibits. Notwithstanding the fact that plaintiffs' counsel did not anticipate that defendants would so posture at the July 31, 1985 meeting, that conference of counsel still proved useful on substantive issues. At the meeting, there was a frank discussion of an aspect of the case that the parties had not focused on in detail in the past—defendants' antitrust counterclaims. The discussion and understanding gained at that meeting permitted plaintiffs' counsel to understand for the first time (although not agree with) the basis for defendants' claimed needs for broad discovery.⁷

After the July 31, 1985 meeting and before this motion was brought, defendants took a step in this case which totally undermines any possible basis for their motion. Five days after the July 31 meeting—after plaintiffs had made the decision to retain new counsel in this case and had

⁶ Boxer declaration, ¶¶ 11-13.

⁷ Boxer declaration, ¶ 14.

begun preparation of the application to this Court to continue the pre-trial conference and establish a summary judgment briefing schedule—defendants reneged by letter on their July 31 agreement to not oppose this application. No explanation for this breach of faith was made then and none has been made subsequently by defense counsel.⁸ Whatever the tactical motive for defense counsel's zig-zag, the Court should not condone or encourage counsel's conduct by even considering their pending motion.

Even if defendants could demonstrate a bad faith failure by plaintiffs to cooperate in pre-trial proceedings, the motion should be denied because no prejudice could flow to defendants from plaintiffs' actions. Within a few days after the July 31 meeting, counsel for plaintiffs applied to the Court to establish a summary judgment hearing and briefing schedule and to abate the September 9, 1985 pre-trial conference. In a telephone conference on that application on August 14, 1985, the Court granted plaintiffs' requests. Indeed, in so ruling, the Court specifically advised all counsel *not* to begin preparation of any pre-trial papers until after the scheduled mid-November hearing on motions for summary judgment.⁹

The Court's order of August 14, 1985 abating the September 9, 1985 pre-trial conference has mooted defendants motion and eliminated any possible claim of prejudice by defendants.

Nor do the cases cited by defendants support their motion. All their authorities involve clear and convincing patterns of counsel ignoring multiple deadlines and successive court orders to opposing counsel's demonstrable prejudice. In defendants principal case—*Chism v. National Heritage*

⁸ Boxer declaration ¶ 17.

⁹ Plaintiffs presume the court made this comment to counsel because it also recognized that its summary judgment ruling will necessarily affect the balance of the trial preparation of this case.

Life Insurance Co., 637 F.2d 1328, 1329-1330 (9th Cir. 1981)—the Court was presented with at least ten different conceded and substantial violations of Court rules and orders and substantial prejudice to the other party. And in *Transameric Corp. v. Transamerica Bancgrowth Corp.*, 627 F.2d 963, 965-966 (9th Cir. 1980), one party was found to have ignored (1) a Court ordered discovery deadline, (2) its obligations to prepare for three continued pre-trial conferences, and (3) an express Court warning of sanctions for subsequent violations. These extreme examples—which defendants disingenuously characterized as “virtually indistinguishable” to this case—bear no resemblance to plaintiffs’ activities in this case.¹⁰ And, unlike the opposing parties in both these cited cases, defendants in this case cannot show any prejudice.

It is now the time for this case to be resolved on the merits—not by procedural strategies. Plaintiffs respectfully submit that the motion is without foundation in fact or law and should be denied.

Respectfully submitted,

Joel E. Boxer
Dorothy Wolpert
Robert J. Rose
NUTTER, BIRD, MARELLA,
BOXER, WOLPERT & MATZ
A Professional Corporation

By: _____
Attorneys for Plaintiffs

Dated: August 23, 1985.

¹⁰ *Crocker National Bank v. M.F. Securities*, 104 F.R.D. 123 (C.D. Cal. 1985), also cited by defendants in support of their motion, bears no factual resemblance to this case since it involved multiple violations of orders and rules and the failure to oppose an order to show cause.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Case No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., a Delaware corporation; et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., a California corporation dba LA MANCHA PRIVATE CLUB AND VILLAS, KENNETH F. IRWIN AND ERLAND KYLLONEN,
Defendants.

PROFESSIONAL REAL ESTATE INVESTORS, INC., a California corporation d/b/a LA MANCHA PRIVATE CLUB AND VILLAS, and KENNETH F. IRWIN,
Counterclaimants,

vs.

COLUMBIA PICTURES INDUSTRIES, INC., a Delaware corporation; et al.,
Counterdefendants.

DECLARATIONS OF DOROTHY WOLPERT, JOEL E. BOXER AND ROBERT J. ROSE IN SUPPORT OF PLAINTIFFS’ MEMORANDUM IN OPPOSITION TO DEFENDANTS’ MOTION FOR SANCTIONS AND PLAINTIFFS’ MEMORANDUM IN OPPOSITION TO DEFENDANTS’ MOTION TO COMPEL

DATE: September 9, 1985

TIME: 10:00 a.m.

COURTROOM: 23

DECLARATION OF DOROTHY WOLPERT

I, Dorothy Wolpert, declare:

1. I am an attorney admitted to practice before all the Courts of this state and this District Court. I am a member of the firm of Nutter, Bird, Marella, Boxer, Wolpert & Matz and was one of the attorneys responsible for prosecution of this action on behalf of plaintiffs. I make this declaration in opposition to defendants' pending motions. The facts stated herein are personally known to me and if called upon at a hearing, I could and would competently testify thereto.

2. My firm filed this action on behalf of plaintiffs on February 25, 1983. No answer was filed until February 9, 1984. The reason for this long delay was the desire of defendants to explore and pursue the possibility for settlement. Plaintiffs agreed to eight pleading continuances in order to facilitate defendants' wishes. In addition, defendants and defendants' counsel were provided with the names of appropriate executives at each of the plaintiffs with whom they might pursue their negotiations.

3. From the outset of the litigation, and during the entire period within which I was involved in this case, defendants' position, reiterated to me on many occasions, was that above all they wished to settle the matter and would be willing to do so even if only *some* of the plaintiffs would license their use of the copyrighted motion pictures at issue. Jeffrey King, counsel for defendants and defendant Kenneth Irwin, each stated to me, separately and on several occasions, that if a few plaintiffs would license their use of motion pictures, defendants would agree to entry of permanent injunction against the use of the motion pictures of the other plaintiffs until such time as that use was found by a court of competent jurisdiction to be non-infringing. Mr. King stated this position to me in our earliest contacts in 1983. He reiterated them at Mr. Irwin's deposition in November 1984 and January 1985.

4. Settlement discussions occurred over a long period of time directly between defendants' counsel and plaintiffs' representatives. Each of the eight requests for extension of time to answer was based on a desire of defendants to continue to pursue direct settlement discussions with studio executives. At one point in time, one of the plaintiffs, Warner Bros. Inc., was sufficiently close to a licensing agreement to submit a contract to defendants. Defendants rejected the contract.

5. In addition to the lengthy delays occasioned by defendants' desire to pursue the possibilities for settlement, further delays were occasioned by the illness of counsel for defendants, Mr. Jeffrey King, in the summer of 1984, during which time I agreed to put off a number of previously scheduled proceedings until he recovered, and then, in October 1984 he was in trial for several weeks and I once again accommodated his schedule. Additionally, delays in discovery were occasioned by personal problems of defendant Kenneth Irwin. He refused to have his deposition taken any place but Palm Springs because he stated that his wife's medical condition required him to be near her at all times. After many months delay, Mr. Irwin's deposition was ultimately taken in Palm Springs, on two separate occasions two months apart, ten months after defendants filed their answer to the complaint.

6. Although defendants have associated local counsel on their pleadings, these counsel have not been actively involved in the case. The fact that Mr. King practices in Washington, D.C. has further encumbered the proceedings.

7. As the early meeting report of counsel filed with this Court states, counsel for both sides indicated their intentions of filing summary judgment motions. Mr. King stated to me, at the time the report was revised in early 1985, and it is reflected in the early meeting report, that he would pursue a summary judgment motion on the issue of copyright infringement only and would agree to a bifur-

cation of the proceedings. This was true for the reason that he acknowledged that the antitrust claims asserted as counterclaims to the copyright action were dependent upon the copyright claim and if plaintiffs could prevail on the copyright claim, the antitrust allegations would fall.

8. During the spring of 1985, plaintiffs were pursuing the feasibility of a summary judgment motion. Mr. King did not indicate that he was preparing a summary judgment motion or about to file one. Mr. King did seek discovery on the antitrust counterclaims and was provided with those of plaintiffs' documents believed relevant and appropriate based on their understanding at the time of defendants' claims. Additionally, plaintiffs filed objections to some of defendants' requests which they believed to be overly broad, irrelevant and burdensome. At the time of the filing of these objections, I wrote to Mr. King and told him I would be available at his convenience to discuss the objections as contemplated by the local rules. On several occasions during the following months, I mentioned the meeting to Patrick Coyne of Mr. King's office with whom I have been dealing exclusively for the last five months. He stated that Mr. King wanted to defer the meeting. I told him our local rules required a joint statement as a predicate to a motion to compel and that if he wanted to send me defendants' positions, I would start drafting plaintiffs'. Mr. Coyne said Mr. King wanted to wait until the document production was complete before considering a motion, or discussing our differences with respect to plaintiffs' objections. A discussion of these objections and defendants' demands for plaintiffs' corporate documents was never initiated by defendants.

9. I have read the declarations of Jeffrey King filed in support of defendants' motion to compel production of documents and motion for sanctions. Unfortunately, they contain many factual inaccuracies and misapprehensions. This is due, I am sure, to the fact that, in part, they are comprised largely of hearsay and purport to describe mat-

ters of which Mr. King has no personal knowledge. My discussions concerning discovery, after February 15, 1985, were *exclusively* with Mr. Coyne. At no time did Mr. Coyne set a date for an in-person or telephonic meeting of counsel to discuss discovery disputes. In fact, he repeatedly deferred such discussion and told me that it was Mr. King's wish to defer such discussion until such time as the document production was completed and he had reviewed all the documents. When Mr. Coyne called me after receiving this Court's minute order in late July of 1985 setting a pre-trial conference, it was solely to arrange a meeting of counsel required by Rule 9. There was no discussion of discovery during that conversation. The conversation was very brief and consisted solely of Mr. Coyne's statement that his office had received the Court's minute order and that Mr. King wanted to come to Los Angeles for the pre-trial conference meeting on July 30th or 31st.

10. In late spring, it appeared that our clients were tending toward the view that a trial on the merits would be preferable to a summary judgment motion and I informed the Clerk of the Court of that interim decision. At that time, the Clerk informed me that the Court would set a pre-trial conference hearing, but that we could still file a summary judgment motion. Shortly after the Court's minute order setting the September 9, 1985 pre-trial conference schedule was received by counsel, I received a call from Patrick Coyne informing me, as noted above, that Mr. King wished to come to Los Angeles for the pre-trial conference meeting and asking me whether we could be available on the 30th or 31st of July. I told Mr. Coyne that we could make someone available either of those days and agreed to meet with Mr. King at the office of his local counsel. My partner, Joel Boxer, and Robert Rose, who is of counsel to our firm, attended that pre-trial conference meeting. Had Mr. Coyne indicated, in any way, that the meeting was related to discovery, I would have

attended it because I was most familiar with that aspect of the case.

11. One of the purported bases for defendants' motions for sanctions relates to the early meeting of counsel and my alleged failure to participate in such a meeting and file the appropriate report to the Court. There is no denying that the report was not timely filed. However, I respectfully submit that any complaint with respect to this oversight exalts form over substance. It is, moreover, a "complaint" never previously voiced. While I admit that the report of early meeting was late, the reason was that defendants took a year to answer to this action and during that year, as well as after it, counsel for the parties had completed all the requirements of the early meeting rule, having had extensive settlement discussions, discussed motions, discovery and were proceeding with trial preparation. For the two years from the date on which the complaint was filed, Mr. King and I were in frequent contact and plaintiffs were pursuing this action vigorously. The initial year's delay was at defendants' request which, since I perceived it was made in good faith, was honored. During the months between the filing of the answer and the early meeting report, Mr. King was seriously ill for several of them and after he recovered, discovery was proceeding. The meetings occurred. The work was done. The case was progressing. The rule had been satisfied in substance and the report ultimately filed was a complete and detailed one.

12. I must correct an additional error contained in defendants' papers and declarations which I find particularly offensive. I never stated to Mr. Coyne or anyone else that my clients were "uncooperative." I did tell Mr. Coyne that collecting and identifying documents from eight different parties, each of which was a major and complex corporation, could be a cumbersome process. That is a fact which has no bearing upon my clients' good faith and intent to cooperate in the appropriate discovery proce-

dures. Since my clients were the plaintiffs in this action, they certainly had no motivation to delay the resolution of an issue vital to their interests.

13. I must also state unequivocally that at no time did I suggest to Mr. King or Mr. Coyne that it was *necessary, from my point of view*, that Mr. King come to Los Angeles for any particular proceeding. He had local counsel, albeit they did little or nothing in the case. On the one occasion when it was necessary to approach the Court for guidance, I suggested that Mr. King appear by telephone. We had arranged all of the stipulations for continuances and discovery by telephone. Indeed, in my early conversations with Mr. Coyne, I specifically told him that I believed the discovery meeting could take place on the phone, followed by an exchange of written positions for the joint statement should defendants decide to make a motion to compel.

14. Finally, I feel compelled to comment on the contention that a meeting for discovery had been set in Washington, D.C. which I failed to attend. In fact, I took a short vacation in the early part of June of this year, with my husband, to attend certain events connected with the visit of Prime Minister Rajiv Gandhi to the United States. My husband is a member of the Indo-U.S. Subcommission and had been invited to these festivities. We were in Washington three days. During one of my conversations with Mr. Coyne, I mentioned that I would be in Washington for a few days' holiday and if at all possible might try to find a few minutes to visit his firm and discuss the status of the case with him and/or Mr. King. As it happened, the three days were filled with events and the occasion never presented itself for me to take time out from my vacation. When I returned to Los Angeles, I wrote Mr. Coyne to that effect.

15. Defendants' motion for sanctions is totally unwarranted. There has been substantial compliance and significant cooperation between the parties to this case since

its inception. I have done everything I could to accommodate out of state counsel with an immobile client who dearly wished from the inception of the action to have sufficient time to settle the case and become a licensee of the plaintiffs. Defendants' "knee jerk" antitrust counterclaims to this copyright action were intended to divert this Court's attention from the infringing acts alleged in the complaint and are based solely on the institution of this action by plaintiffs in their good faith effort to enforce their exclusive rights under copyright. Mr. King has admitted that if plaintiffs prevail on their copyright action, the antitrust counterclaims will fall. He has agreed that the two issues should be bifurcated. In light of this, his overly broad and burdensome discovery requests designed to harass plaintiffs and obtain proprietary trade information had been improper from the outset. The thrust of defendants' "antitrust" counterclaims is that plaintiffs will not let him do what he wishes to, notwithstanding that they believe his actions to be an infringement of their copyrights. Plaintiffs believe that the antitrust counterclaims are unmeritorious.

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed in Los Angeles County, California on August 16, 1985.

/s/ DOROTHY WOLPERT

DECLARATION OF JOEL E. BOXER

I, JOEL E. BOXER, declare:

1. I am admitted to the bar of this Court, and I am one of the members of Nutter, Bird, Marella, Boxer, Wolpert & Matz, counsel of record for plaintiffs herein, who has been responsible for the prosecution of this action on behalf of the plaintiffs since its inception. I have first hand knowledge of the facts set forth below and would, if called as a witness at a hearing or trial, testify to these facts based upon my first hand knowledge.

2. As the Court file in this matter shows, and as is explained in greater detail in the accompanying declaration of Dorothy Wolpert, the first year to year and one-half of this litigation was marked by repeated requests to continue pleading deadlines, mostly initiated by counsel for defendants. These continuances were sought and obtained to facilitate attempts by defendants to negotiate settlements with each of the plaintiffs and because of the physical incapacity for a period of time of defendants' lead counsel.

3. As the Court is now aware, however, the extensive efforts to reach a settlement were not successful even though considerable direct negotiation occurred between the parties.

4. In or about June of 1985, I personally became involved in a series of discussions with representatives of each of the plaintiffs in order to determine if there were some method by which this case could be resolved without a trial. These discussions were very complex, partly because of the differing views various plaintiffs had on the subject of settlement. By late July 1985, I had reached the point in this case where I believed there was a significant possibility that plaintiffs could formulate a settlement proposal to defendants which, given prior position

tasks by defendants or their representatives, I thought would be an acceptable means of settling the litigation.

5. On July 30 and July 31, 1985 I received the authority from the last of the plaintiffs to make an overall settlement proposal. Concurrently I received the authority of the clients to proceed to file a motion for summary judgment on the copyright claims if the settlement proposal I was to make to defense counsel was not accepted or if there seemed no realistic possibility of settlement after I had made the proposal.

6. The last of the plaintiffs did not approve of the settlement offer I was to make to defendants on July 31, 1985 until literally just before the meeting when I conferred in person with that representative. I should add parenthetically that it was critical that all of the plaintiffs participate in the settlement offer because defense counsel had previously stated that a settlement of the dispute was not possible unless the entire case could be resolved at one time.

7. A meeting had been scheduled at defense counsel's request in Los Angeles for Wednesday, July 31, 1985. Prior to that meeting the only contact I personally had with defense counsel concerning the subject to be discussed at that meeting was a telephone call the prior week from Patrick Coyne, one of the Washington, D.C. attorneys representing defendants. I vividly remember that telephone conversation because I was quite surprised to learn just prior to it from my colleague Dorothy Wolpert that defendants lead counsel Jeffrey King wanted to meet personally in Los Angeles. This seemed to me to be a waste of his client's resources. Because of that, I remember starting my conversation with Mr. Coyne by saying, in substance, "I hope Jeffrey has other business in Los Angeles because its foolish for him to come to Los Angeles just to meet with us." Mr. Coyne did not respond directly except to say that Mr. King wanted to meet. He specif-

ically did not say that the purpose of the meeting was to discuss discovery issues. Because of that, I assumed the only purpose was to discuss the September 9, 1985 pretrial conference.

8. I met at the offices of defendants' local counsel for approximately 3 hours and 15 minutes in the late afternoon and early evening of Wednesday, July 31, 1985. I attended the meeting with Robert Rose, an attorney who is of counsel to our firm and a specialist in antitrust matters. The meeting ended just a few minutes before 7:00 p.m. because (a) we had exhausted all subjects to be discussed and (b) the parking lots where Mr. Rose and I had left our cars closed at 7:00 p.m. and we had to retrieve them. Attending the entire meeting on behalf of defendants was Laura J. Barns, local counsel for defendants, and Mr. King.

9. As soon as the July 31, 1985 meeting began, I made light comments about Mr. King's travel schedule and learned from him that he had flown out from Washington D.C. in the morning and planned to return later that evening to the east coast. I told him that I was very surprised that he came to Los Angeles just to attend a meeting of counsel since a telephone conference would have been much more economical and practical. Mr. King then told me he came out to attend the meeting in person solely because plaintiffs had insisted that he be present at any such meeting. I immediately responded that I had never taken such a position and I could not imagine anyone in my office taking such a position on behalf of plaintiffs. Mr. King then attributed the position to my partner Dorothy Wolpert. I told him I could not specifically deny the statement since I had never thought to ask her about such a matter, but I found the statement to be totally inconsistent with the way our office treats opposing counsel in general and has treated him in this case. [Subsequent to the July 31, 1985 meeting I conferred with Mrs. Wolpert and was advised by her in absolute terms that she never insisted that

Washington D.C. counsel attend the meeting in person in Los Angeles. By letter, I so advised defense counsel.

10. Mr. King started the July 31, 1985 meeting by announcing that he wished to discuss the pretrial conference order and discovery matters. I responded that I had two proposals which I thought would substantially ease the pre-trial burden in this case. I told defense counsel that plaintiffs were now in a position to discuss the subject of settlement in terms I believed (based on prior contacts between parties and counsel) would be satisfactory to defendants. I believe it would be inappropriate to outline here the details of the settlement proposal discussed at the meeting. However, I can state that the next 45 minutes of the meeting concerned solely the subject of settlement. During that period of time, defense counsel adjourned, purportedly to discuss the subject of settlement directly with their principal by telephone. At the end of this period, the parties were at a complete impasse on the subject of settlement and agreed only that, for the present, there did not seem to be any likelihood that the matter would be settled. Quite frankly, I found defendants' position inconsistent with positions previously taken by them in settlement negotiations.

11. I then told defense counsel in the July 31, 1985 meeting that I believed the case was now ripe for summary adjudication on the copyright issues based in part on a recent federal trial court ruling from Pennsylvania on issues substantially similar to the ones in this case. I told defense counsel that I would propose we establish a firm briefing schedule for plaintiffs' summary judgment motion and what I understood was defendants' counter-motion. Counsel for defendants then said that defendants had anticipated that such a motion would be brought and had already prepared the counter-motion which, in defense counsel's words, "in all probability" would be filed after defense counsel had an opportunity to review plaintiffs' moving papers. The parties then discussed a briefing

schedule for plaintiffs' motion for summary judgment and the anticipated counter-motion for summary judgment. The discussion was detailed and the parties worked out a schedule (including consolidated briefing on the two motions) with a hearing date of October 15, 1985. During the course of the discussion, defense counsel Barns contacted this Court's clerk to determine the Court's availability on Tuesday, October 15.

12. After the schedule had been worked out, I asked defense counsel if they would join in an application to the Court to postpone the pre-trial conference and establish the briefing schedule negotiated between the parties at the meeting. Defense counsel said that defendants would decline to join in the motion, but would not oppose such an application if brought by plaintiffs. I advised defense counsel I anticipated presenting the application to the Court within the next few days.

13. There was further discussion between the parties concerning the impact of the motions for summary judgment upon the remaining course of the case and possible settlement. All parties at the meeting stated their agreement that the copyright issues presented by the case could probably be decided by the Court upon summary judgment and that the Court's ruling on summary judgment could have a substantial impact on remaining issues in the case and, in particular, the affirmative defenses of copyright misuse and the counter-claims for antitrust violations. Defense counsel conceded at the meeting that if the motions for summary judgment were granted in plaintiffs' favor, defendants could not succeed on the misuse affirmative defense or the antitrust counter-claims. There was disagreement between the parties as to whether or not the affirmative defense and the counter-claims would be defeated even if plaintiffs did not succeed on the motion for summary judgment but the Court concluded that plaintiffs' prosecution of the lawsuit was in good faith. The parties, however, did agree that any ruling on the motion for sum-

mary judgment would have a substantial impact on the subject of settlement and that either party would be highly motivated to settle the case following the ruling on the copyright issue summary judgment motion(s).

14. Notwithstanding this discussion, defendants insisted on continuing the preparation for pre-trial of this case over plaintiffs' counsel's objection that this was a mere waste of time and posturing before the Court because the motion for summary judgment would substantially alter all parties' pretrial preparation. Nevertheless, the issues listed in Rule 9 of the Local Rules were discussed between the parties at the meeting although plaintiffs did not provide defendants at the meeting with a list of their trial witnesses and exhibits. There was, however, an extensive discussion between Mr. Rose and Mr. King concerning the nature of the antitrust counter-claims. Prior to that discussion, plaintiffs' counsel had not been informed in any comprehensive fashion by defense counsel of the nature of defendants' antitrust claims and, while plaintiffs do not believe defendants' claims have any merit, the meeting served the useful purpose of giving plaintiffs guidance as to what positions defendants would be relying on at trial in the area.

15. Approximately one-half hour before the meeting ended, defendants requested that the parties confer concerning the subject of plaintiffs' document production to defendants. As indicated in paragraph 7 above, I had not prepared to discuss this subject in detail because I had not been informed that discovery was the purpose of the meeting. However, at defendants' request plaintiffs' counsel discussed each and every one of the objections to defendants' production request. To plaintiffs' counsel's knowledge, there were no discovery issues remaining to be discussed when plaintiffs' counsel left the meeting a few minutes before the parking lots closed at 7:00 p.m.

16. The following day, August 1, 1985, I reported in detail to representatives of the plaintiffs concerning the substance of the meeting on July 31, 1985. Later in the day our office was advised that plaintiffs were considering retention of new counsel to represent them in this litigation. After the close of business on Monday, August 5, 1985, I was advised that plaintiffs had made a final decision to retain new counsel. The following morning, Tuesday, August 6, 1985, I met with principals of Rosenfeld, Meyer and Susman to discuss a transfer of this case to that office. The principal attorney in the Rosenfeld, Meyer and Susman office to whom the case was to be transferred, Stephen A. Kroft, was then on vacation so John Davies of that office and I discussed the bringing of the application to continue the pre-trial to allow Mr. Kroft time to return and negotiate a briefing schedule on the summary judgment issues with defense counsel. The application was prepared and submitted to this Court on Wednesday, August 7, 1985.

17. Prior to the filing of the Application, I had received by messenger on Monday, August 5, 1985 from defense counsel three hand-delivered letters, one of which stated that defendants were reneging on their agreement at the July 31, 1985 meeting to not oppose an application to continue the pre-trial conference.

I declare under penalty of perjury the foregoing is true and correct and that this declaration was executed this 23rd day of August 1985, at Los Angeles County, California.

/s/ Joel E. Boxer

DECLARATION OF ROBERT J. ROSE

I, ROBERT J. ROSE declare as follows:

1. I am a member of the Bar of this Court and I am of counsel to the law firm of Nutter, Bird, Marella, Boxer, Wolpert & Matz. I am submitting this declaration in support of the Plaintiffs' Opposition to Defendants' Motion to Produce.

2. I have been a practicing lawyer, primarily in the field of antitrust law, for ten years. For five years I practiced as a Trial Attorney with the Antitrust Division, United States Department of Justice, in both Washington, D.C. and Los Angeles, California. For over four years I was Senior Litigation and Antitrust counsel for one of the plaintiffs in this action, Twentieth Century-Fox Film Corporation. During my practice, both with the Department of Justice and at Fox, I have had occasion to both serve requests for documents in antitrust cases, and to respond to numerous discovery requests addressed to Fox.

3. I am familiar with the Defendants' and Counter-Claimants' Request for Production of Documents and Things Nos. 1-40, served by the Defendants on January 7, 1985 in this case.

4. I have examined that request for production of documents, and have determined that request Nos. 20 through 39 are in support of the Defendant's counter-claims. After reviewing this document request, it is my opinion that it is as broad as the document requests served on Twentieth Century-Fox and other studios by the ABC and CBS television networks in *United States v. Columbia Broadcasting System, Inc.*, and in *In Re Motion Picture Exhibitor AntiTrust Litigation*, Multi-District Litigation No. 366. In both of those cases, the document production required Fox to assemble a team of paralegals to respond to the request, resulted in production of tens of thousands of documents, and took almost six months of time.

4. In my opinion, the document request as a whole would require the production of at least 20 boxes of material from each plaintiff, and would require three paralegals at least four months to assemble, working full-time. As an estimate of the costs involved, in the networks litigation, referred to in the prior paragraph, the out-of-pocket costs for complying with a similar subpoena cost all the studios approximately \$2.3 million dollars.

I declare under penalty of perjury that the foregoing is true and correct and that this was executed at Los Angeles, California on August 23, 1985.

/s/ Robert J. Rose

[Verification and Proof of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

N. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

FILED
AUG 30 1985
CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Hearing Date: September 9, 1985
Hearing Time: 10:00 a.m.
Hearing Place: Courtroom No. 23

**DEFENDANTS' REPLY MEMORANDUM WITH REGARD
TO THEIR MOTION FOR SANCTIONS**

Defendants and counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively "Irwin"), respectfully submit this memorandum in reply to "Plaintiffs' Memorandum and Opposition to Defendants' Motion for Sanctions" and the "Declaration of Dorothy Wolpert and Joel E. Boxer." Irwin will not reiterate the arguments made in their Memorandum in Support of its motion. Rather they simply submit this memorandum to

respond briefly to plaintiffs' memorandum and to correct certain misstatements of facts made by plaintiffs in their memorandum.

Plaintiffs do not deny that they have violated this Court's rules on numerous occasions. In most instances, they simply ignore the violations altogether giving no explanation for their conduct. Plaintiffs also fail to cite a single case to support their position that sanctions are not warranted. Rather, plaintiffs attempt in their memorandum to divert focus from their own bad conduct by discussing at length some initial delays in this case. Plaintiffs misstate the facts concerning those earlier delays in an attempt to cast dispersions on Irwin. Even if true, those initial delays do not alter the fact that plaintiffs have violated the Court's rules on numerous occasions. Accordingly, since plaintiffs admit they have violated this Court's rules sanctions are appropriate.

ARGUMENT

I.

**PLAINTIFFS CONCEDE THAT THEY HAVE VIOLATED
THE RULES**

Plaintiffs fail to deny that they repeatedly violated this Court's rules. They do not even address their violations of Local Rule 6 in which they failed to hold an early meeting of counsel until ordered by this Court; failed to prepare an early meeting report; and failed to exchange documents with Irwin or provide Irwin with a list of witnesses with knowledge of this matter as required when the meeting was finally held. Plaintiffs have yet to produce the documents and information required under Rule 6. Similarly, plaintiffs ignore their violations of Local Rule 7 in which they failed to cooperate in discovery; failed to respond timely to Irwin's request for a meeting of counsel pursuant to Local Rule 7.15.1; and did not respond to

Irwin's proposed stipulation concerning the discovery dispute as required by Local Rule 7.15.4.

Plaintiffs only denial of a rule violation is that they were unprepared to discuss discovery at the July 31, 1985 meeting of counsel because they were unaware that the meeting would include discovery issues. This denial, however, is not supported by the facts. Irwin's counsel has stated that, in setting up the July 31, 1985 meeting, he specifically requested the meeting include a Rule 7 conference to discuss discovery. *Declaration of Patrick J. Coyne* at ¶ 7 (attached to original memorandum in support of the motion as Exhibit 6). Plaintiffs dispute this, but simple logic does not support their position. The plaintiffs were well aware that Irwin considered their response to the document request as inadequate. As the plaintiffs themselves admit, the parties were discussing this matter for months. As a result, it is absurd to now suggest that Irwin's counsel would have traveled from Washington to Los Angeles and not discussed the discovery matter. To support their position, Plaintiffs claim that they did not believe the meeting would include a discussion of the discovery dispute because Irwin wanted "to defer such discussion [of the discovery dispute] until such time as the document production was complete. . . ." *Declaration of Dorothy Wolpert* at ¶¶ 8-9. This is contradicted by plaintiffs' own statements. Plaintiffs admit that their counsel considered arranging the Rule 7 meeting in June of this year during a visit to Washington, D.C. Obviously, plaintiffs were well aware in June of Irwin's desire to meet to discuss plaintiffs' failure to produce documents. Their sudden ignorance in July is unexplained.

Notwithstanding this factual dispute, plaintiffs continued to violate the Rule 7.15 after the meeting. At the meeting Irwin provided plaintiffs with a proposed stipulation concerning the discovery dispute as required under local Rule 7.15.2. Plaintiffs were obligated to respond to that proposal within seven days. *Local Rule 7.15.4*. To date, thirty

days after the meeting, plaintiffs have yet to respond. Finally, plaintiffs admit that they knew the meeting was arranged pursuant to Rule 9. That rule requires the parties to discuss discovery. *See Local Rule 9.4.8*. Their refusal to discuss the discovery problem violated this rule even if plaintiffs were, as they claim, unaware that the meeting was to include a discussion of discovery pursuant to Rule 7.

Plaintiffs also fail to deny that they violated Local Rule 9 by not proceeding, as Irwin did, witness and document lists and a proposed stipulation of facts at the July 31, 1985 meeting. Instead, plaintiffs argue only that they made a settlement offer at the meeting which apparently is supposed to excuse their violation of the rules¹. Moreover, Rule 9 requires the parties to discuss settlement (*See Local Rule 9.4.11.*) and still provide the required lists and proposals. Plaintiffs last minute settlement discussion does not justify their violation of the rules. The mere fact that they were going to offer a settlement does not excuse them of their obligations under the rules. In fact, by plaintiffs' own admissions, "[t]he last of the plaintiffs did not approve of the settlement offer . . . until literally just before the meeting. . . ." *Declaration of Joel E. Boxer* at ¶ 6. Accordingly, plaintiffs were unaware a settlement offer could even be made until "literally just before the meeting." The witness and document lists and proposed stipulations that are required under Rule 9 should have been prepared before this. At best, this is a convenient excuse to cover up an obvious rule violation.

Plaintiffs provide the false impression that settlement negotiations have continuously taken place during the two and one-half years this matter has been pending. Quite to

¹ Normally, Irwin would not discuss settlement since those are private matters not subject to disclosure under Rule 408 of the Federal Rules of Evidence. However, as much as plaintiffs have raised the matter, Irwin will briefly discuss the settlement to correct some misstatements.

the contrary, settlement negotiations were initiated in May, 1983 and essentially terminated eight months later in January, 1984. Other than an indication at Kenneth Irwin's deposition that Irwin would continue to consider settlement, no discussions have taken place for over one and a half years. The settlement offered also included aspects that Irwin have previously indicated were unacceptable; plaintiffs could not therefore rely upon the rationale that Irwin would accept the proposal. An attempt to settle the case should not, and cannot excuse the failure of plaintiffs to abide by the rules of this Court.²

Plaintiffs only other "excuse" is that they intend to file summary judgment which, for unexplained reasons, should justify their previous and continuous rule violation. Even if the continuation of the pretrial conference mooted plaintiffs' violations of Rule 9, the other multiple violations exists. Plaintiffs do not, because they cannot, deny they repeatedly violated the Rules of this Court, and they have no feasible excuses for their actions.

II.

PLAINTIFFS PROVIDE NO LEGAL SUPPORT FOR THEIR POSITION THAT SANCTIONS SHOULD NOT BE IMPOSED

Plaintiffs' only contentions are that sanctions are inappropriate because Irwin acted in bad faith and that Irwin cannot demonstrate they were prejudiced by the rule violations. Plaintiffs fail to cite even a single case to support their novel position. Rather, they make these bald arguments and attempt in less than one page to distinguish three of the eleven cases cited by Irwin. Plaintiffs claim that Irwin acted in bad faith because "they reneged on their agreement not to oppose plaintiffs' application to the

² These facts are set forth in the Declaration of Jeffrey W. King, attached hereto as Exhibit 8.

court to continue the September 9 pretrial conference." *Plaintiffs' Memorandum In Opposition to Defendants' Motion for Sanctions* at ¶ 1. A more frivolous claim of "bad faith" could not be imagined. First, Irwin were under no obligation to agree to plaintiffs' request for an extension. Moreover, given the plaintiffs' failure to prepare for the pretrial conference, the extension was unwarranted. Finally, plaintiffs misstate the facts concerning this matter. Counsel for Irwin did represent that they would not likely oppose the motion for an extension of time. Irwin's counsel, however, specifically requested that the plaintiffs contact him and read him any language to be included in the motion indicating that Irwin would not to oppose the motion for an extension. Plaintiffs failed to do so. Accordingly, five days after the conference Irwin informed plaintiffs that Irwin reserved their rights to oppose the motion for an extension of the pretrial conference. Not only is this not bad faith, it cannot be an excuse for plaintiffs' continuous rule violation.

Plaintiffs next claim that sanctions are inappropriate in this case because Irwin cannot demonstrate that they were prejudiced as a result of the rule violations. Irwin have been significantly prejudice. As a result of plaintiffs' refusal to produce documents as required under the early meeting rules (Rule 6), Irwin were forced to file document requests. Many of these documents should have been freely given at the early meeting. Moreover, as a result of plaintiffs' refusal to cooperate in discovery, Irwin have been forced to prepare proposed stipulations, attend a meeting of counsel, and prepare a motion to compel. These violations, along with the Rule 9 violation, have inhibited Irwin from preparing their defenses and counterclaims. This is the very type of prejudice found by the Court in *Chism v. National Heritage Life Ins. Co.*, 637 F.2d 1328, 1331 (9th Cir. 1981) (plaintiffs' repeated rule violations "deprived the defendant of needed information increased

its litigation expenses and forestalled its preparation for trial").

Moreover, if sanctions were appropriate, only plaintiffs' unsupported argument fails to appreciate the purpose of sanctions in cases such as here. As the Supreme Court recognized in *National Hockey League v. Metropolitan Hockey Club, Inc.*, 427 U.S. 537, 643 (1976), sanctions are to "deter those who might be tempted to such conduct in the absence of such a deterrent." Plaintiffs' conduct, not only prejudiced Irwin, but warrants sanctions in order to deter others from engaging in similar conduct.

Finally, plaintiffs' attempt to distinguish the cases cited in Irwin's memorandum supporting their motion is inadequate. Plaintiffs claim that the two cases principally relied by Irwin, are distinguishable. First, plaintiffs try to distinguish the decision in *Chism v. National Heritage Life Ins. Co.*, 630 F.2d 1328 (9th Cir. 1981) by arguing that there were "at least ten different conceded substantial violations of the courts' rule and orders. . . ." Plaintiffs do not describe what those "conceded substantial violations were." A review of plaintiffs' conduct, however, indicates they too had at least ten substantial rule violations: (1) plaintiffs failed to hold an early meeting of counsel (*Local Rule 6.1*); (2) plaintiffs failed to prepare an early meeting report (*Local Rule 6.2*) (in fact defendants ultimately prepared the report which plaintiffs then edited); (3) plaintiffs failed to produce any documents at the early meeting (*Local Rule 6.1.1*); (4) plaintiffs did not provide Irwin with the required list of witnesses at the early meeting (*Local Rule 6.1.4*); (5) plaintiffs failed to cooperate in discovery (*Local Rule 7* and *Fed. R. Civ. P. 26*); (6) plaintiffs failed to arrange for a meeting of counsel within 10 days of Irwin's request for such a meeting (*Local Rule 7.15.1*); (7) plaintiffs failed to participate in any meaningful manner in the Rule 7 meeting held on July 31, 1985 (*Local Rule 7.15.1*); (8) plaintiffs failed to respond within seven days to Irwin's proposed stipulation concerning the discovery

dispute (*Local Rule 7.15.4*); (9) plaintiffs failed to provide Irwin with witness or document list or a proposed stipulation of facts at the July 31, 1985 Rule 9 Meeting (*Local Rules 9.4.3-7*); and (10) plaintiffs failed to participate in the Rule 9 meeting in any meaningful way by discussing their claims or defenses (*Local Rule 9.4*).

These are essentially the same types of violations found in the *Chism* case. A review of that case indicated that the plaintiff, *Chism*, violated two basic rules: Rule 7, by failing to answer timely and adequately interrogatories, and failing to file a response to a motion on time; and Rule 9, by filing the memorandum of law and facts and a pretrial order late, and failing to provide witness and exhibit lists to the defendant. *Chism v. National Heritage Life Ins. Co.*, 637 F.2d at 1329-30. In the present case, the plaintiffs have violated, not only *Local Rules 7* and *9* but also *Local Rule 6*³.

Plaintiffs cannot distinguish these cases by claiming they are merely "extreme examples." The facts illustrate that plaintiffs' conduct in this case is also extreme. Plaintiffs numerous rule violations and their continual failure to abide by them should not be tolerated. A failure to issue sanctions would indicate that parties before this court can repeatedly violate the rules without fear of any reprisal.

³ Plaintiffs also tried to distinguish the decision in *Transamerica Corp. v. Transamerica Bancgrowth Corp.*, 627 F.2d 963 (9th Cir. 1980) principally upon the fact that the Court expressly warned sanctions would be imposed for subsequent violations. The rules of this Court specifically warn the plaintiffs that sanctions, including dismissal, may be imposed for violation of the rules. See e.g., *Local Rule 7.15.4*. Plaintiffs apparently are claiming that sanctions are warranted only *once they have been warned* to abide by the rule. If this were the rule, then every party would be allowed to ignore rules until the court specifically tells them to stop. This simply is not the law.

III.

PLAINTIFFS ATTEMPT TO AVOID RESPONSIBILITY
FOR THEIR CONDUCT

Plaintiffs attempt to avoid discussion of their numerous rule violations by trying to focus on the earlier delays in this case. Instead of addressing directly addressing their own conduct, plaintiffs attempt to cast Irwin in a bad light. Even if true, this does not alter the facts concerning plaintiffs' contentions bad faith conduct. Moreover, plaintiffs' contentions are not accurate. Rather than identify all the inaccuracies contained in plaintiffs' memorandum and supporting declarations, only the claim that Irwin caused a substantially delay in the proceeding will be addressed below.

Plaintiffs attempt to characterize their behavior as "marked by unusual patience . . . while defendants attempted to negotiate for one and one-half years of settlement of the entire law suit." *Plaintiffs' Memorandum In Opposition To Defendants' Motion for Sanctions* at 1-2. This is simply false. This case was filed on April 25, 1983. An answer to the complaint was delayed by approximately 8-1/2 months while *the parties* attempted to negotiate settlement. Settlement negotiations broke down in January, 1984, and the Answer was filed on February 9, 1985.⁴

Plaintiffs then requested an extension of time within which to respond to the counterclaims filed by Irwin as part of their answer. Defendants renewed their requests four additional times until they had to August 28, 1984 to file the reply to the counterclaims.⁵

⁴ See Declaration of Jeffrey W. King, attached hereto as Exhibit 8.

⁵ Irwin's request for an extension of time indicated that "this extension is requested in Order to permit the parties to continue explore the possibility of settlement." In contrast, all but one of plaintiffs' request for an extension of times give no reason for the request. In fact, settlement was not actively being explored at that time.

Attempting to focus this matter away from their own improper conduct, plaintiffs also claim that "during the month between the filing of the Answer and the early meeting report, Mr. King [Irwin's counsel] was seriously ill for several of them and after he recovered, discovery was proceeding." *Declaration of Dorothy Wolpert* at ¶ 11. The fact is that Irwin's counsel was hospitalized during the month of August. There was, however, no activity required of counsel during that month. There was no request made to hold an early meeting during that time; nor were any discovery requests made. In fact, the case laid dormant pursuant to the request for an enlargement of time to allow plaintiffs to reply to Irwin's counterclaims. Accordingly, plaintiffs did not "put off a number of previously scheduled proceedings until [Irwin's counsel] recover . . ." *Declaration of Dorothy Wolpert* at ¶ 5. There simply was nothing to put off.

The record of this case reflects that no activity took place in the case until August 27, 1984 when plaintiffs filed their replies to Irwin's counterclaims and filed a notice of deposition and a request for production of documents. Plaintiffs, however, claim that Irwin's deposition was scheduled only "after many months delay. . . ." *Declaration of Dorothy Wolpert* at ¶ 5. The fact is, that plaintiffs scheduled Mr. Irwin's deposition on October 1, 1984. The deposition actually took place on November 15, 1984—a 45 day delay from what was initially scheduled by plaintiffs. Irwin's counsel had a trial during the month of October and accordingly the deposition was rescheduled to the latter part of October. A dispute arose, however, concerning whether the deposition would take place in Los Angeles or Palm Springs. After appealing to this Court, the deposition took place in Palm Springs and was commenced on November 15, 1985. The deposition was continued until January 15, 1985. The reason for the continuance was not any delay by Irwin. Rather, plaintiffs had requested production of documents to coincide with

the deposition. Plaintiffs requested that Mr. Irwin's deposition be continued until after they had an opportunity to review the documents produced. *Deposition of Kenneth Irwin* at 126-132. (A true copy of the pertinent parts of the depositions is attached as Exhibit 9). A forty-five day delay, especially in light of the fact that there was dispute as to the location of the deposition which had to be resolved by this Court, is a far cry from the "many months delay" alleged by plaintiffs.

Plaintiffs' attempt to look at these early delays as an excuse for their numerous rule violations is a ploy that does not work. Not only is plaintiffs' attempt to lay blame for these delays on Irwin inaccurate, but the fact that the parties had some delays in the early part of this proceeding does not excuse plaintiffs' subsequent continuous violations of the rules of this court.

CONCLUSION

Plaintiffs have failed to explain any of their misconduct in this case. Accordingly, for the reasons set forth above and in memorandum in support of its motion previously submitted, Irwin respectfully request this court to issue an order dismissing this case and ordering plaintiffs to pay the cost along with reasonable attorney fees, that Irwin incurred preparing the early meeting report under Rule 6, and in preparing for and attending the Rules 7 and 9 meetings.

Respectfully submitted,

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
~~PATRICK J. COYNE~~

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By /s/ Jeffrey W. King

Jeffrey W. King
Attorneys for Defendants and Counter-
claimants Professional Real Estate
Investors, Inc., and Kenneth F. Irwin

Exhibit 8

DECLARATION OF JEFFREY W. KING

I, Jeffrey W. King, declare:

1. I am a member of the Bar of the District of Columbia and a member of the law firm of Collier, Shannon, Rill & Scott. I have been principally responsible for the defense of the case *Columbia Pictures Industries, Inc. v. Professional Real Estate Investors, Inc.* (Case No. 82-2594 W.P.G.), since this case was initiated. I have firsthand knowledge of the facts set forth below and, if called as a witness at any hearing or trial, would testify to these facts based upon my firsthand knowledge.

2. No serious settlement negotiations have occurred since early 1984. Settlement was briefly discussed at the January 15 deposition of Kenneth Irwin. No firm offer or details, however, were discussed at that meeting. Since that time there has been no discussion of settlement until plaintiffs made a settlement offer at the July 31, 1985 meeting of counsel.

3. The settlement offer made by plaintiffs at the July 31, 1985 meeting included provisions which plaintiffs already had been informed would not be acceptable under any circumstance to Mr. Irwin or his company.

4. At the July 31, 1985 meeting, plaintiffs did request a continuance of the pretrial conference. I informed them that it was unlikely that I would oppose their request but I would not support it. Moreover, I stated that I specifically wanted them to contact me and read to me over the phone any language they were going to put into the motion to explain to the court that I was not going to oppose the motion. I informed plaintiffs' counsel that I wanted to hear the language before it was submitted to ensure that none of my clients' rights were waived with regard to the plaintiffs' numerous rule violations. I did not hear from plaintiffs or his counsel for several days, I in-

formed them that my client were preserving their rights to oppose the extension.

5. In 1983, I made a request for several extensions of time in which to file an answer and responsive pleadings in order to allow the parties an opportunity to discuss settlement. I did not request any additional extensions of time after January 1984. All additional extensions of time were made pursuant to the request of the plaintiffs.

6. In August 1984 I was hospitalized as a result of an illness. I was out of the hospital and back at work in early September 1984. I am unaware of no action that was pending during my illness with regard to this case. I am also unaware of any delays that have resulted because of my illness.

7. Finally, just to clarify the record, I have never informed the plaintiffs or their counsel that my clients' counterclaims and affirmative defenses would fail if plaintiffs were to prevail on their claims of copyright infringement. I did agree with plaintiffs' counsel, however, that if they were to prevail on the copyright issues, settlement of all the claims is very likely. Similarly, plaintiffs agreed that if my clients were to prevail on the copyright issues, settlement of the counterclaims was a likely.

I DECLARE, under penalty of perjury, that the foregoing is true and correct and that this declaration was executed this 29th day of August, 1985, in Washington, D.C.

/s/ Jeffrey W. King
JEFFREY W. KING

Exhibit 9

CERTIFIED COPY

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Case No: 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., a Delaware
corporation; et al.,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN

Defendants.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Counterclaimants,

vs.

COLUMBIA PICTURES INDUSTRIES, INC., a Delaware
corporation; et al.,

Counterdefendants.

Deposition of KENNETH FRANCIS IRWIN, taken before
JERI J. GREENUP, Certified Shorthand Reporter, #6477,
Notary Public in and for the County of Riverside, State
of California on behalf of Plaintiffs at 210 North Alejo
Road Palm Springs, California, commencing at 12:00 p.m.,
Tuesday, November 13, 1984, pursuant to Notice.

APPEARANCES:

FOR THE PLAINTIFFS and COUNTERDEFENDANTS:

Nutter, Bird, Marella, Boxer, Wolpert & Matz
Attorneys at Law

BY: DOROTHY WOLPERT

340 North Camden Drive, Ste 300

Beverly Hills, California 90210

FOR THE DEFENDANTS AND COUNTERCLAIMANTS:

Collier, Shannon, Rill & Scott

Attorneys at Law

1055 Thomas Jefferson Street, N.W.

Washington, D.C. 20007

[126]MRS. WOLPERT: Well, you have facilities for copying?

THE WITNESS: I have a copy machine

MRS. WOLPERT: Well, I would suggest to you that your copy machine will be greatly overtaxed in doing this, but I will leave it to you and your lawyer to figure out how you want to do it. I think it would be more efficient to do it the way I suggest, however I'll leave it to you.

Off the record.

[Off the record discussion]

MR. KING: With regard to the documents, Mrs. Wolpert was informed there was a large volume of documents.

It was suggested to her by letter from me that she make advance arrangements to review the documents. She has not done so. She reviewed them today.

We are available now for her to review these documents as we are available to have this deposition taken. So I think this deposition will be postponed and reconvened at another day when she's had this opportunity. It's just unreasonable as far as as we are concerned. If she wants to complete the deposition now she can complete it.

MRS. WOLPERT: Are you prepared to sit here all night?

MR. KING: Yes.

MRS. WOLPERT: That is an unreasonable position since we could not subject a court reporter, the deponent or ourselves to do it.

I think Mr. King is a sufficient lawyer to know that many depositions go on more than one day and there are hiatus between the sections. Since he has refused to provide [127] me with copies of any documents and only provide originals, which he will not turn over to the court reporter, or allow her to make copies, I am in a difficult

position in terms of questioning the witness about the documents, making copies available for the reporter, et cetera, et cetera, et cetera.

I suggest in the interest of avoiding unnecessary and pointless conflict, that I just tell you at this time that the deposition will be continued to another day mutually convenient, and I hope we can arrive at that without resort to the court. Since my client is paying their legal fees, unlike yourself, those kinds of things sit unhappily on them.

But be that as it may, there will be a need for further deposition time with Mr. Irwin, not only because of the production of documents and the manner of the production, but just because I haven't finished and it's been a long day for you and everybody else.

So I won't question that now. In accordance with your obligations under the Federal Rules of Civil Procedure, you tell me how you are going to produce these documents.

MR. KING: We have produced these documents.

MRS. WOLPERT: You have not allowed me the opportunity to have them copied.

MR. KING: We told you we will copy them for you.

If you had come out earlier and seen the documents you could have designated all of them and they would be available to you.

What I would ask you to do is complete the lines of questions that do not need the documents, and we will [128] reconvene, if we determine that is appropriate, and hopefully not having to resort to court, we can have the continuation done on the documents. But why don't we complete the deposition that does not need the document review.

MRS. WOLPERT: I have completed all the questions I can with Mr. Irwin without further recourse to the documents.

Another problem is he doesn't seem to know too much about them, so it may be that what we'll do when we have an opportunity to review them, we will find out from him who really knows these documents and proceed in that manner.

MR. KING: Again, much of the information in these documents is information we will stipulate to.

MRS. WOLPERT: Wonderful.

MR. KING: Regarding most of the information you asked for today. I would hate to think we would have to resort to further depositions and discovery when we can so easily come to an agreement on stipulated facts.

MRS. WOLPERT: Fine. I look forward to that Mr. King. And once I have had an opportunity to look at the documents, and I'm still trying to do so, and get copies of them, maybe I could suggest to you what questions I would ask.

If you want to say we admit all of that, then there won't be any need for further deposition. What I suggest at the moment that we do, since you do not practice in the State of California very much, look at our calendars and fix a tentative date since the three of us are in the same room.

MR. KING: I left my calendar in my hotel room, but I [129] have a relatively clear idea of what it is.

MRS. WOLPERT: Let's fix a date that Mr. Irwin would will be available.

MR. KING: I'm not agreeing Mr. Irwin will be available, but if you want to fix a date, that's fine. let us consider that.

MRS. WOLPERT: Let me understand your position, Mr. King, since you are not around very much. If you are taking the position now that I have no right to adjourn

this deposition and continue it on another day, I want to know that.

MR. KING: I have difficulty with the idea that you are adjourning because you have not had an opportunity to review the documents completely.

MRS. WOLPERT: That is not the basis exclusively.

MR. KING: Then what is the basis?

MRS. WOLPERT: It's in the record. Do you want me to repeat it?

MR. KING: I would appreciate if you would repeat it.

MRS. WOLPERT: One day of deposition has not been adequate to fully cover the subject matters with Mr. Irwin that I need to cover. Now I have to tell you that I admit that in part that was because I was almost two hours late today. Unfortunately that was not my fault, and it's very possible if I had had those two hours I would have completed the deposition without the documents, but obviously the documents are very significant and I have not had an opportunity to review them.

[130]The other basis is it is more than a day's deposition anyway, and I would need more than a day with Mr. Irwin, which I'm entitled to.

MR. KING: We have no question that you are entitled to complete Mr. Irwin's deposition. You indicated earlier you could not move forward without review of the documents which I understand you were complete except for the documents.

It is 5:30 now. We have only been doing this deposition, excluding the recesses, for probably less than five hours. Why don't we continue on with the deposition and see if we can complete it to the extent you can without resorting to the documents.

MRS. WOLPERT: For one reason, the court reporter has informed me she's not prepared to go beyond 6:00. For

another, I have a two-hour drive back to Los Angeles, and I'm not prepared to go beyond 6:00 o'clock.

THE WITNESS: Why don't you stay overnight?

MRS. WOLPERT: I don't care to stay over night, Mr. Irwin, thank you.

Having to come to Palm Springs for this was done for a convenience to your client's needs.

MR. KING: That was based on a court order.

MRS. WOLPERT: Based on what?

MR. KING: Based on your refusal to consider my client's needs.

MRS. WOLPERT: So we are here out of consideration of your client's personal needs. I have not asked Mr. Irwin questions about that.

[131]MR. KING: Please go forward and do so.

MRS. WOLPERT: I have no desire to.

Be that as it may, we are here for that purpose, and I'm sure that the court, having once considered Mr. Irwin's needs, will have an equal interest in the needs of all the other parties and counsel to this action.

I know it's a hardship for you.

MR. KING: It's not a hardship, it's a disruption to this man's business that is of most concern to me.

MRS. WOLPERT: Litigation is a disruption to everyone's business.

MR. KING: We understand that and we are trying to minimize it. You indicated the deposition will go today and tomorrow.

MRS. WOLPERT: Can I have all the copies.

MR. KING: Do you mean by noon tomorrow?

You cannot, but you can have available throughout the night. You were well informed that you would not be able to have these documents unless—

MRS. WOLPERT: I'd like to go of the the record.

[Off the record discussion]

MRS. WOLPERT: We have stipulated off the record as follows:

Mr. Irwin will reproduce for me those documents which we will designate, and send them to his lawyer, I guess Mr. King, and he will send them to our offices so we can mark those that are confidential.

And the documents will be received in our offices [132] by December 1st.

Does that create a problem for you?

THE WITNESS: That's a little tight. It depends on how many she wants. Can we go off the record for a second?

MRS. WOLPERT: Yes.

[Off the record discussion]

MRS. WOLPERT: The documents will be delivered to my office no later than December 13, 1984, and we will re-schedule the continued deposition of Mr. Irwin on the documents sometime during the week of January 9th, 1984, at the convenience of all of the parties and Mr. king.

We can stipulate that the reporter is requested to prepare and send to the parties the first volume of the deposition with its attached exhibits as soon as it's ready, in the normal course.

We will submit to the deponent both volumes of his deposition for correction and signature after the completion of the deposition.

If the deposition is not signed and corrected within 60 days of receipt, a certified copy can be used at a trial of this action as though it were signed and corrected.

[Whereupon the deposition was adjourned at 5:40 p.m.,
to be rescheduled.]

[Whereupon Plaintiff's Exhibits 1 through 7 were
marked for identification by the Notary Public.]

[Certificate of Service omitted in this printing]

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, etc., et al.,
Defendants.

AND RELATED COUNTERCLAIMS

**NOTICE OF MOTION AND MOTION FOR SUMMARY
JUDGMENT AND PERMANENT INJUNCTION;
MEMORANDUM OF POINTS AND AUTHORITIES**

**Hearing Date: 11/18/85
Time: 10:00 A.M.
Courtroom No: 23**

[Table of Contents omitted in this printing]

[Table of Authorities omitted in this printing]

TO DEFENDANTS AND TO THEIR ATTORNEYS OF RECORD:

YOU, AND EACH OF YOU, WILL PLEASE TAKE NOTICE that on November 18, 1985, at 10:00 A.M., or as soon thereafter as the matter can be heard, plaintiffs will move the Court, in the courtroom of the Honorable William P. Gray, United States District Judge, located at the United States Courthouse, 312 North Spring Street, Los Angeles, California, and plaintiffs do hereby move the Court, for an order pursuant to F.R.Civ.P. 56 (a) and (d) granting summary judgment in plaintiffs' favor on the Complaint herein (i.e., on the issue of defendants' liability) and awarding to plaintiffs statutory damages and a permanent injunction in the form set forth in the Proposed Summary Judgment lodged concurrently herewith.

The motion will be based on the grounds that there is no genuine issue as to material fact with respect to (a) the issue of whether defendants have infringed, and are infringing, plaintiffs' exclusive rights to publicly perform, and to authorize the public performance of, the copyrighted motion pictures referred to in Exhibit A to the Complaint and (b) the issues raised by defendants' affirmative defenses, and that plaintiffs are entitled to judgment and an award of statutory damages and a permanent injunction as a matter of law. The grounds for these contentions are set forth with particularity in the accompanying Memorandum of Points and Authorities.

This motion will be based upon this Notice of Motion and Motion, the Declarations, Memorandum of Points and Authorities, proposed Statement of Uncontroverted Facts and Conclusions of Law and Proposed Summary Judgment filed and lodged concurrently herewith, and upon all of the pleadings, records and papers on file herein.

DATED: September 30, 1985.

Respectfully submitted,

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
MAREN CHRISTENSEN

By: /s/ Stephen A. Kroft
STEPHEN A. KROFT
Attorneys for Plaintiffs and
Counterdefendants

Of Counsel:

Burton H. Hanft, Esq.
SARGOY, STEIN & HANFT
105 Madison Avenue
New York, New York 10016

MEMORANDUM OF POINTS AND AUTHORITIES INTRODUCTION

This is an action for infringement of plaintiffs' exclusive rights under the Copyright Act (17 U.S.C. §§ 101 et seq.) to publicly perform and to authorize the public performance of 65 copyrighted motion pictures owned and/or controlled by them. The action is based on the undisputed facts that defendants, who own and operate La Mancha, a Palm Springs resort hotel open to the public, are renting video discs of plaintiffs' motion pictures to their hotel guests for the express purpose of permitting them to view those motion pictures by means of video disc players and television screens placed in their hotel rooms by defendants.¹ By so doing, defendants are depriving plaintiffs of an important source of revenue, *i.e.*, the right to license public performances of their copyrighted works in hotels and hotel rooms for a fee.

Since defendants' hotel, including its guest rooms, is open to the public, plaintiffs submit that the performances authorized therein by defendants constitute infringing public performances as a matter of law. And, since the facts on which this contention is based are undisputed, this legal issue is uniquely suited to disposition by summary judgment, thereby entitling plaintiffs to a permanent injunction and statutory damages.²

¹ Video discs and video disc players are similar to pre-recorded video cassettes and video cassette players. When the video disc is played on a video disc player wired to a television set, the motion pictures contained on the video disc can be viewed on the television screen to which the player is wired.

² In addition to the Complaint filed by plaintiffs, defendants have filed a counterclaim based on alleged violations of the antitrust laws, breach of contract and unfair competition. Plaintiffs believe that the counterclaim is completely devoid of merit. Plaintiffs also believe, however, that it would unduly complicate this motion to address the issues raised by the counterclaim at this time; and, since all parties appear to agree

THE UNDISPUTED FACTS

A. The Parties

1. Plaintiffs

Plaintiffs produce and distribute theatrical motion pictures. They own the copyrights in, or the exclusive rights to license the public exhibition of, the 65 motion pictures which are the subject of this suit.³ Copies of the copyright certificates and written agreements which establish such ownership are attached to the supporting declarations filed concurrently herewith.

Plaintiffs derive revenues from their copyrighted motion pictures by licensing them for exhibition in motion picture theaters, on "free" and pay television and through various other means of exhibition, including exhibition in hotels and motels, and by selling, or authorizing the sale of, copies of the motion pictures on pre-recorded video discs and video cassettes for non-public exhibition. Plaintiffs derive revenues from hotel and motel exhibition of these motion pictures in various ways:

- (a) They license companies which are authorized to grant licenses to hotels and motels for in-room closed circuit performances of their motion pictures, with guests paying a fee for each motion picture viewed. In fiscal 1984 Warner Bros. Inc.,

that the disputes raised by the counterclaim can be resolved without additional litigation if a summary judgment is granted on the Complaint, this motion focuses solely on the issues raised by the Complaint (and the Answer thereto) as permitted by F.R.Civ.P. 56 (a) and (d).

³ The Complaint alleges infringement of 74 motion pictures owned or controlled by plaintiffs. However, discovery has revealed that 9 of those motion pictures, though offered for rental by defendants, have apparently not been actually rented. Accordingly, only 65 motion pictures are currently at issue. See Develin Decl., Exh. "A".

for example, derived revenues from this manner of exhibition in excess of \$1,500,000;⁴

- (b) They license companies which are authorized to grant licenses to hotels and motels for in-room closed circuit performances of their motion pictures free to guests. In fiscal 1984 Warner Bros. Inc. derived revenues from this manner of exhibition in excess of \$150,000;
- (c) They license motion pictures to companies which deliver an over-the-air broadcast signal to cable systems authorized to have hotels and motels as customers; the latter distribute such signals to their rooms. In fiscal 1984 Warner Bros. Inc. derived revenues in excess of \$95,000 from this manner of exhibition;
- (d) They license pay cable television networks to authorize hotels and motels (a) to retransmit their pay cable network signals or (b) to become customers of cable systems affiliated with such pay cable networks. In both instances the hotels and motels distribute such network signals to their guest rooms. The manner in which such networks pay plaintiffs makes it impossible to quantify the revenues which plaintiffs derive from this source. (See Sorkin Decl.).

2. Defendants.

Defendant Professional Real Estate Investors, Inc. ("PREI") owns and operates a luxury resort hotel in Palm Springs known as La Mancha Private Club and Villas ("La Mancha"). Defendant Kenneth F. Irwin ("Irwin") is the sole stockholder and President of PREI and the chief op-

⁴ All plaintiffs conduct their hotel and motel licensing business in a manner similar to Warner Bros. Inc. (See Klingensmith, Krieger, Krug, Smitas, Rosen, Giaquinto and Kramer Declarations).

erating officer and manager of La Mancha (Irwin Depo. 28/17-27, 29/9-13, 30/3-12, 163/23-164/3, 208/5-7).⁵

Prior to La Mancha's institution of the unauthorized video disc movie program which is the subject of this suit, La Mancha subscribed to, and paid for, a pay cable television service by which motion pictures were transmitted to (and hence performed in) La Mancha's guest villas. However, after instituting their video disc movie program in Fall, 1981, defendants discontinued the cable television service and thus ceased paying for performances of plaintiffs' motion pictures in La Mancha's villas. (Irwin Depo. 63/22-64/14).

B. The Nature of the La Mancha Hotel Facilities.

The accommodations at La Mancha consist of one, two and three bedroom apartment suites characterized by defendants as "private villas". There are 50 such villas, each of which has its own kitchen and patio as well as a private or semi-private swimming pool. (Irwin Depo. 43/6-25; Exh. 9).⁶ As with any hotel or motel, guest occupancy in the villas is administered through a central office and registration desk where guests check in and out. (See Beatie Decl.).

Amenities offered to guests of La Mancha, like the amenities offered by other resort hotels, include a restaurant, room service, gymnasium, saunas, massage services and facilities, tennis and paddle tennis courts, bicycles and golf putting green. (Beatie Decl.; Irwin Depo. 114/13-17; Exhs. 9-13). Villa accommodations at La Mancha rent from

⁵ The pages from Mr. Irwin's deposition referred to herein are attached to the Declaration of Stephen A. Kroft filed concurrently herewith.

⁶ Copies of all numbered exhibits referred to herein are attached to the Declaration of Stephen A. Kroft. Exhibits identified by letters are attached to other supporting declarations as indicated in the text.

\$175 to \$610 per night, including daily maid service. (Exh. 9).

Although defendants characterize La Mancha as a "private club" (Irwin Depo. 35/11-17), it is unquestionably open to the public. Indeed, defendants advertise La Mancha nationwide as a "destination resort", offer group rates and offer the La Mancha villas by the night. (Exhs. 2, 9-11, 14-16, 21, 52; Irwin Depo. 35/18-36/20). Moreover, to stay at La Mancha, one need only call the hotel and reserve a room or make a reservation through a travel agent. (See Beatie, Porter and Smith Decls.; Irwin Depo. 49/10-11; Exhs. 9-11). No proof of membership in the "club" is required for such a reservation. Nor is any such proof of membership required of a guest registering at La Mancha. Upon registering, La Mancha's front desk personnel request only a credit card and driver's license. (See Beatie, Porter and Smith Decls.; Irwin Depo. 48/2-11, 48/27-49/9).

C. Defendants' Advertising Activities.

To attract members of the general public, defendants have extensively advertised La Mancha in several prominent national and regional publications such as *The New Yorker Magazine*, *Forbes Magazine*, *Los Angeles Times*, *Chicago Tribune*, *Los Angeles Magazine*, *San Diego Magazine* and *Travel & Leisure*. (Irwin Depo. 146/1-27, 148/7-8; Exhs. 2, 14-16, 52). In addition, Irwin has prepared and distributed press releases and brochures to inform the public about La Mancha. (Irwin Depo. 138/7-140/27; Exhs. 12, 13).

D. La Mancha's Infringing Movie Program.

One of the guest services most heavily emphasized in defendants' advertisements and brochures, and the focus of this suit, is the availability of movies for exhibition in La Mancha's guest villas. (See e.g., Exhs. 2, 9-11, 14, 16, 52). For example:

12/5/83 ISSUE OF THE NEW YORKER MAGAZINE

[Article omitted in this printing]

"It's easy to spend your vacation in Palm Springs. I stayed at a magnificent resort and called La Mancha."

— Bruce Goldstone, *Los Angeles Times* Movie Review

PRIVATE POOL VILLAS

PALM SPRINGS

"Perfect Interlude"

Swim under the sun and relax in your totally private pool — just steps outside your luxuriously appointed air-conditioned private villa with full kitchen and poolside BBQ. Watch full-length motion pictures with RCA disc player on your wide screen TV. European club breakfast available.

High-speed tennis
Hunting gun use
Daily maid service

LA MANCHA PRIVATE VILLAS AND COURT CLUB

"A Destination Resort"

444 Avenida Caliente, Palm Springs, CA 92262

Call for Reservations

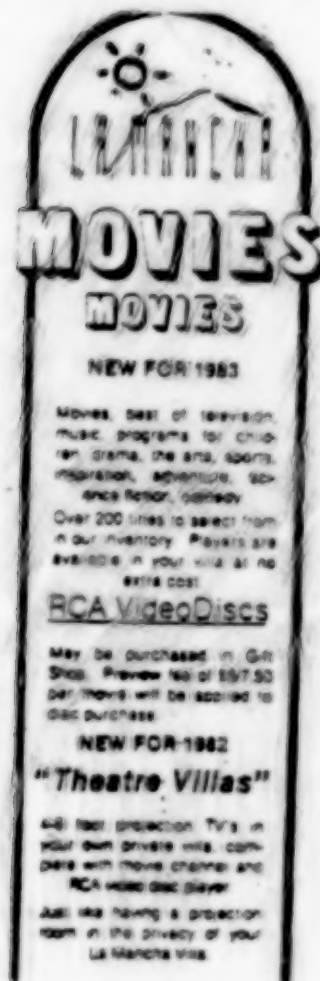
Outside California

(619) 323-1773 - (800) 854-1298

(Exh. 2)

LA MANCHA BROCHURE

[Article omitted in this printing]



(Exh. 10)

As indicated in these advertisements and brochures, each La Mancha guest villa is equipped with both a video disc player and a television screen, many of which consist of 4'-6' projection TV screens (Irwin Depo. 16/22-24, 44/27-45/13). Video discs for viewing through these disc players are made available to La Mancha's guests in the hotel's registration/gift shop area. (See Beatie and Porter Decs.;

Irwin Depo. 41/14-19). These discs have been manufactured by RCA under written licenses from plaintiffs and have been sold by RCA to defendant Irwin pursuant to a dealership agreement between Irwin and RCA. (Irwin Depo. 66/2-8, 69/19-70/14). None of RCA's licenses with plaintiffs grant RCA or Irwin (or anyone else) the right to publicly perform, or to authorize the public performance of, the motion pictures contained on such discs. (See Sorkin ¶ 3), Klingensmith (¶ 5), Krieger (¶ 5), Krug (¶ 5), Rosen (¶ 5), Smitas, Giaquinto (¶ 5) & Kramer (¶ 5) Decs. Irwin depo. 88/18-24).⁷

The video discs offered by defendants for viewing in La Mancha's guest villas are on display on a rack in the registration/gift shop area. (See Beatie and Porter Decs.). Although these discs are offered for both sale and overnight rental, rentals account for the vast majority of defendants' video disc revenues. (Irwin Depo. 74/2-75/6). Moreover, despite defendants' contention that their discs are available for rental to both guests and *non*-guests of La Mancha, defendants have never rented a video disc to anyone other than a guest of the hotel (Irwin Depo. 19/5-7, 124/25-125/2).

The guest fee charged for use of La Mancha's video discs is \$5.00 per night for movies contained on a single disc and \$7.50 per night for movies on two discs. (See Beatie Decl.; Irwin Depo. 196/25-197/20, 201/1-23, 205/6-28; Exhs. 38, 40, 41). These fees are generally billed to the guest's rooms and paid for when the guest checks out. (*Id.*). Revenues received by La Mancha from payments of such video disc fees have averaged about \$12,000 per year (Irwin Depo. 227/5-228/10; Exh. 45).

⁷ Irwin may, of course, sell these discs to non-guests pursuant to his RCA dealership agreement. Plaintiffs do not challenge such sales in this action. Nor is the practice of renting videodiscs for private home viewing involved here.

More than 300 movie titles have been offered by La Mancha for viewing by its guests, including at least 74 titles owned by plaintiffs. (Exhs. 11, 51; Exh. "B" to Porter Decl.). As a rule, La Mancha maintains only one video disc copy of each title. (Irwin Depo. 97/21-98/11). Generally, each time a disc is rented to a guest for viewing in his or her villa, the rental is recorded on a file card maintained for each title. (Irwin Depo. 106/2-9; 107/12-108/18; 109/23-110/26; Exh. 37 and Exh. "B" to Devlin Decl.) These cards confirm that at least 65 titles owned by plaintiffs were actually rented to La Mancha's guests for viewing in their villas and that many of these titles have been rented for such purposes on multiple occasions. (Irwin Depo. 108/23-109/14; Devlin Decl.) Investigators retained by plaintiffs have confirmed La Mancha's movie program activities, having stayed at La Mancha on two separate occasions and viewed in their villas several of plaintiffs' motion pictures rented to them by La Mancha employees. (See Beattie & Porter Decls.).

E. La Mancha's Movie Program Is Without The Consent Of Plaintiffs

As noted above, the licenses issued by plaintiffs to RCA do not grant to either RCA or Irwin the right to publicly perform, or to authorize the public performance of, plaintiffs' motion pictures. Nor have plaintiffs ever consented to the movie rental and viewing program offered

* These records are not kept meticulously. For example, no cards were produced by defendants for some titles. Moreover, rentals of several discs which were viewed by Kathy Beattie, an investigator who stayed at La Mancha in January, 1983, were not recorded on defendants' file cards. (See Irwin Depo. 110/8-13, 198/26-28, 200/8-13, 201/4-205/28 & Exhs. 38-41).

For example, plaintiff Columbia's "Kramer v. Kramer" was rented 29 times through December, 1984. Similarly, plaintiff Paramount's "The Godfather" and plaintiff Warner Bros.' "Dirty Harry" were respectively rented 25 times and 19 times during this period. (See Devlin Decl., Exh. "A").

by La Mancha to its guests. (See Sorkin (¶ 5), Klingensmith (¶ 7), Krieger (¶ 6), Krug (¶ 6), Rosen (¶ 6), Smitas, Giacinto (¶ 6), Kramer (¶ 6) Decls.; Irwin Depo. 88/18-24). Accordingly, on October 7, 1982 shortly after learning of this unauthorized movie program, plaintiffs sent a letter to defendants requesting that they cease and desist their infringing activities. (Irwin Depo. 135/7-136/6; Exh. 8). Defendants ignored this letter, and have continued to the present date to furnish plaintiffs' copyrighted motion pictures to La Mancha's guests for viewing in their guest villas. (See e.g., Exhs. 9, 37 and Exh. "B" to Devlin Decl.).

ARGUMENT

I

SUMMARY JUDGMENT IS PROPER IN THIS CASE

The standard for summary judgment, the absence of any genuine issue of material fact, is well established. F.R.Civ.P. Rule 56. This standard is clearly met here.

To summarize, the material undisputed facts are as follows: (1) plaintiffs own the copyrights (or exclusive licenses) in the motion pictures at issue¹⁰; (2) La Mancha has nationally advertised the availability of video discs (including video discs of plaintiffs' motion pictures) for viewing in La Mancha's guest villas; (3) La Mancha, including its guest villas, is open to, and patronized by, the public; (4) defendants have furnished video discs of at least 65 of plaintiffs' motion pictures to La Mancha's guests for a fee

¹⁰ The copyright certificates presented concurrently herewith constitute *prima facie* evidence of the ownership and validity of these copyrights. 17 U.S.C. § 410(c); *Durham Industries, Inc. v. Tomy Corp.*, 630 F.2d 905, 911 (2d Cir. 1980); *Dollcraft Industries Ltd. v. Well-Made Toy Mfg. Co.*, 479 F.Supp. 1105, 1115 (E.D. N.Y. 1978). To the extent that someone other than a plaintiff owns some of these copyrights, plaintiffs have exclusive written licenses to exploit those copyrights, copies of which are attached to the declarations filed concurrently herewith.

knowing and expecting that such guests would view such motion pictures in their guest villas; (5) defendants' conduct has been without the consent of plaintiffs. As the following discussion will show, these undisputed facts require a decision that defendants have infringed plaintiffs' exclusive rights as copyright owners to perform their copyrighted motion pictures publicly and to authorize others to do so.

II

THE EXHIBITIONS OF PLAINTIFFS' MOTION PICTURES IN LA MANCHA'S GUEST VILLAS CONSTITUTE PUBLIC PERFORMANCES

Among the exclusive rights granted by the Copyright Act to motion picture copyright owners are the rights to publicly perform and to authorize the public performance of such motion pictures. These rights are set forth in § 106(4) as follows:

"Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

* * * *

"(4) in the case of . . . motion pictures and other audiovisual works, to perform the copyrighted work publicly."

17 U.S.C. § 106(4)

A copyrighted motion picture is "performed" within the meaning of the Act when its images are shown in any sequence or the sounds of the Act when its images are shown in any sequence or the sounds accompanying these images are made audible. 17 U.S.C. § 101. Under this definition, there can be no dispute that plaintiffs' motion pictures are "performed" when the images and sounds of those motion pictures are shown and made audible by means of the video disc players and television screens in

La Mancha's guest villas. Thus, the central issue in this case is whether these performances occur publicly in violation of plaintiffs' § 106(4) rights.

The Act defines "publicly" as follows:

"To perform . . . a work 'publicly' means—

(1) To perform . . . it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) To transmit or otherwise communicate a performance . . . of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance . . . receive it in the same place or in separate places and at the same time or at different times."

17 U.S.C. § 101 (emphasis added)

As the Third Circuit has recently stated, Clause (1) of this definition "is written in the disjunctive, and thus two categories of places can satisfy the definition of 'to perform a work publicly.' The first category is self-evident; it is a 'place open to the public.' The second category, commonly referred to as a semi-public place, is determined by the size and composition of the audience". *Columbia Pictures Industries, Inc. v. Redd Horne*, 749 F.2d 154, 158 (3d Cir. 1984) (hereinafter "*Redd Horne*"). Thus, it is clear that if a performance occurs in a place falling within the first category, i.e., a place open to the public, the performance is "public" irrespective of the size and composition of the audience. *Id.*¹¹ La Mancha is such a place.

¹¹ This interpretation of Clause (1) is fully supported by the legislative history. For example, the Register of Copyrights, whose office drafted the language of Clause (1), stated in his Supplementary Report to the House of Representatives: "Under the first part of Clause (A) a per-

As indicated in the Statement of Facts, *supra*, defendants advertise their hotel nationwide, inviting the public to patronize La Mancha as a "destination resort." Although defendants attempt to characterize La Mancha as a "private club", these advertisements contain no restrictions whatever on the ability of members of the public to stay in La Mancha's guest villas. Nor are any such restrictions imposed by defendants. Rather, to stay at La Mancha, one need only call the hotel and reserve a room or make a reservation through a travel agent. No proof of membership in the "club" is required either to make such a reservation or to check-in to the hotel. Indeed, the only identification requested upon registering at La Mancha's front desk are a credit card and driver's license.¹² In view of these undisputed facts, there is no doubt whatever that La Mancha, including its guest villas, is "a place open to the public."

Despite the obviously public nature of La Mancha's hotel facilities, defendants argue that when they rent their villas to paying guests, the villas become "private" rather than "public" places, reasoning that so long as the villas are being rented by individual guests, no other member of the public is permitted to enter or use those villas. According to defendants, because each of its villas is thus "closed" to other potential patrons while it is being occupied by

formance or exhibition would be 'public' if the place where it occurred is 'open to the public', regardless of the number of persons present at the particular time." *House Revision Part 6 Supplementary Report of the Register of Copyrights on The General Revision of the U.S. Copyright Law: 1965 Revision Bill* (Comm. Reprint) at 24.

¹² According to Irwin, members of the general public (i.e. "non-members" of La Mancha) are limited to three stays at La Mancha after which they must become members to enjoy additional stays. (Irwin Depo. 50/8-51/25; Exhs. 9-11) Although it is not clear that this alleged limitation is strictly enforced, it is undisputed that *any* member of the public who has not exceeded this three-visit restriction may stay at La Mancha. (Irwin Depo. 36/5-9, 47/23-51/25; Beatie, Porter and Smith Decs.).

another paying guest, any performances of plaintiffs' motion pictures in that guest's villa necessarily occur in a "private" place.

This argument misperceives the meaning of the word "place" as used in the statutory definition of "to perform publicly." Indeed, virtually an identical argument was made and rejected in both *Redd Horne, supra*, and *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 612 F.Supp. 315 (M.D. Pa. 1985) (hereinafter "*Aveco*"). In *Redd Horne*, defendants operated two stores called "Maxwell's" in which they sold and rented video cassette recorders and prerecorded video cassettes. Each store contained several small viewing rooms (which could hold up to 4 people) in which defendants' customers could view motion pictures contained on defendants' inventory of prerecorded video cassettes. Each room contained a television screen wired to a video cassette recorder operated by defendants. To view these motion pictures, patrons selected a film title from defendants' inventory and for a fee ranging from \$5 to \$8 were permitted to view the film in one of the viewing rooms. One of defendants' employees would then place a prerecorded cassette of the selected film in one of Maxwell's video cassette recorders and transmit it to the television screen in the viewing room occupied by the paying patron. Each store was open to any member of the public who wished to utilize its facilities or services, although no patron was permitted to enter a viewing room while it was being occupied by another unrelated patron.

The owners of these films sued the defendants in *Redd Horne* for violating their exclusive § 106(4) rights to perform their copyrighted works publicly. Defendants argued that the performances were not "public" because they occurred in private viewing rooms to which no one other than the patrons occupying the rooms at the time of the performances could gain entrance. The Court rejected this argument reasoning:

"The relevant 'place' within the meaning of section 101 is each of Maxwell's two stores, not each individual booth within each store. Simply because the cassettes can be viewed in private does not mitigate the essential fact that Maxwell's is unquestionably open to the public"

749 F.2d at 159

In *Aveco*, *supra*, defendants operated stores called "Nickelodeon" which contained viewing rooms similar to those in *Redd Horne*, with three major differences. These differences were summarized by the Court as follows:

"(1) Maxwell's rented the viewing rooms only in connection with rental of the video cassettes and therefore, in effect, operated as a type of movie theater whereas the Nickelodeon [and La Mancha] rents the viewing rooms and rents cassettes independently. Rental of the rooms and rental of the cassettes is not necessarily related. (2) Maxwell's employees played the cassettes for Maxwell's customers; Nickelodeon [and La Mancha] customers must play the cassettes they rent themselves. (3) 'At all times, Maxwell's maintained physical dominion and control over the tapes.' *Redd Horne* at 160, but the Nickelodeon [and La Mancha] yields control of the tapes to the customer and therefore engages in a genuine 'in-store rental.'"

612 F.Supp. at 318-19.

Based on these differences, defendants argued (as do defendants in the instant case) that the performances in their store, unlike the performances in *Redd Horne*, were "private", not "public". The Court rejected this argument. In so doing, the Court stated:

"[I]n our view, those factual differences do not dictate a legal result different from the result

reached in *Redd Horne*. *Redd Horne* clearly held that for purposes of the Copyright Act, Maxwell's viewing rooms and entire store were places 'open to the public' and that performance of the cassettes at Maxwell's therefore constituted 'public performances.' The Court of Appeals reached this conclusion despite the fact that when a family or other small group viewed a movie at Maxwell's, the room in which they viewed the movie was closed to other members of the public. *Redd Horne*, 749 F.2d at 159. In this respect, we see no difference between the Nickelodeon and Maxwell's. The factual distinctions pointed to by the Defendants are therefore immaterial.

"The Nickelodeon is open to the public just as Maxwell's was open to the public. The cassettes are performed at the Nickelodeon by Nickelodeon customers and the cassettes are therefore publicly performed."

612 F. Supp. at 319

This reasoning is equally applicable to the performances at La Mancha. Just as the defendants' stores, rather than their individual viewing rooms, were the relevant "places" for purposes of assessing the "public" nature of the performances in *Redd Horne* and *Aveco*, defendants' entire resort hotel, *not* its individual villas, is the relevant "place" for purposes of assessing the "public" nature of the performances which are occurring at La Mancha. And, just as the stores, including the individual viewing rooms contained therein, in *Redd Horne* and *Aveco* were open to any member of the public willing to pay a fee for the use of such rooms, La Mancha, including its individual hotel villas, is open (for up to at least three visits) to any member of the public willing to pay La Mancha's guest rates. Thus, just as the performances in *Redd Horne* and *Aveco* occurred in "places open to the public," the performances

in La Mancha's guest villas also occur in such a public place and, hence, necessarily constitute "public" performances. And, as the courts in *Redd Horne* and *Aveco* specifically held, this is so regardless of the fact that each of La Mancha's villas is only open to one set of paying guests at a time.

III

DEFENDANTS ARE LIABLE UNDER THE COPYRIGHT ACT FOR THE PUBLIC PERFORMANCES AT LA MANCHA

It is expected that defendants may argue that despite the undeniably public nature of La Mancha, they are not liable for the performances at issue because La Mancha's guests, rather than defendants or their employees, play the video discs rented out by defendants. Such an argument, however, would be totally devoid of merit.

As noted above, and as defendants' Answer expressly recognizes (Answer ¶ 14), § 106 of the Act not only gives motion picture copyright owners the right to publicly perform their works but also the right "to authorize" performance of those works publicly. Both legislative history and relevant case law make clear that the right "to authorize" public performances encompasses the type of activities engaged in by defendants at La Mancha. Indeed, the House Report which accompanied the 1976 Copyright Revision Act specifically addressed this very issue, stating: "[A] person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance." H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. at 61 (1976) *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5674 (hereinafter "House Report").

The issue was also specifically addressed in *Aveco*, *supra*, in which defendants argued that they were not in-

fringers because defendants' customers, rather than defendants themselves, were the ones who were playing, and hence performing, plaintiff's movies. The Court rejected this argument, reasoning that: "By enabling its customers to perform the cassettes, the defendants infringe the plaintiffs' exclusive right under § 106 of the Copyright Act to authorize public performance of the movies and therefore infringe the plaintiffs' copyrights." (emphasis added) 612 F.Supp. at 319.

In sum, by renting video discs to La Mancha's guests for the purpose of publicly performing the motion pictures contained on those discs on equipment provided by defendants for this purpose, defendants have unquestionably infringed plaintiffs' rights "to authorize" such public performances.¹³ Defendants are liable for this infringement regardless of the fact that their customers, rather than defendants themselves, are the ones who physically play the discs on the equipment supplied by defendants.

IV

DEFENDANTS CANNOT BE PERMITTED TO CIRCUMVENT PLAINTIFFS' RIGHTS BY A NOVEL USE OF NEW TECHNOLOGY

As noted above, Clause (2) of the definition of "to perform publicly" includes any transmission of a copyrighted work "to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance . . . receive it in the same place or in separate places and at

¹³ The result would be the same under a traditional contributory infringement analysis. See e.g., *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 62-63, 32 S.Ct. 20, 22 (1911) (*Held*: person who advertises and sells [or rents] a motion picture for the express purpose of permitting and encouraging it to be publicly performed without the copyright owner's consent is liable for such unauthorized performances "on principles recognized in every part of the law").

the same time or different times." According to the House Report, this definition specifically applies even when "the potential recipients of the transmission represent a limited segment of the public, *such as occupants of hotel rooms*". House Report at 65 (emphasis added).

It is thus clear that if defendants transmitted performances of plaintiffs' works by means of centrally controlled video disc players wired by closed circuit to the television screens in La Mancha's guest villas, such transmissions would constitute public performances under Clause (2). See *Redd Horne, supra*, 749 F.2d at 154. To avoid this obvious result, defendants have instead accomplished performances of plaintiffs' works by placing the video disc players in La Mancha's villas and providing its guests with the discs necessary to complete the performances. Although this conduct involves a novel application of new technology, it does not absolve defendants of liability for the infringing public performances made possible by their conduct. See *Redd Horne, supra*, 759 F.2d at 157 ("A defendant, however, is not immune from liability for copyright infringement simply because the technologies are of recent origin or are being applied to innovate uses.").

As noted above (Statement of Facts, § A.1., *supra*), plaintiffs' exclusive rights to license public performances of their copyrighted motion pictures in resort and hotel rooms are extremely valuable to them. Indeed, plaintiffs have diligently built a market for such licenses, a market which defendants have cavalierly invaded without any regard for plaintiffs' rights as copyright owners. Defendants simply cannot circumvent these rights and evade liability for their infringing conduct merely by modifying a technological method of delivering public performances which Congress so clearly intended to proscribe.

V

PLAINTIFFS ARE ENTITLED TO SUMMARY JUDGMENT ON DEFENDANTS' AFFIRMATIVE DEFENSES

Defendants have asserted two affirmative defenses, the "first sale doctrine" (Second Affirmative Defense) and laches and estoppel (First Affirmative Defense). Neither defense has merit, and each may be disposed of as a matter of law.

A. The First Sale Doctrine Does Not Insulate Defendants From Liability

Defendants' Second Affirmative Defense contends that defendants' activities are protected by the first sale doctrine, which is codified in § 109(a) of the Act as follows:

"(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."

17 U.S.C. § 109(a)

Defendants argue that since they have purchased their video discs lawfully from RCA, their rental of those discs to La Mancha's guests is protected by their right under § 109(a) "to sell or otherwise dispose of [i.e. rent] the possession of that copy." This argument, however, misperceives the limited scope of § 109.

The right under § 109 to rent a lawfully acquired copy of a copyrighted work does *not* vest in the purchaser any of the other exclusive rights (such as the rights to publicly perform or to authorize public performance) conferred on the copyright owner by § 106. This is made clear by § 202 which states:

"Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including a copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; . . ."

Moreover, defendants' argument, that despite the clear language of Section 202, Section 109(a) nonetheless permits them to rent discs of plaintiffs' works for public performances, is directly contrary to both the legislative history of Section 109 and the judicial decisions interpreting the section. See House Report at 79 ("Under Section 202, however, the owner of the physical copy or phonorecord cannot reproduce or perform the copyrighted work publicly without the copyright owner's consent"); *Redd Horne, supra*, 749 F.2d at 158 ("Plaintiffs' sale of video cassette copies of their copyrighted motion pictures did not result in a waiver of any of the other exclusive rights enumerated in Section 106, such as the exclusive right to perform their motion pictures publicly"); *Aveco, supra*, 612 F.Supp. at 319 ("It [the first sale doctrine] does not, however, give . . . [defendants] . . . any of the other rights granted exclusively to the plaintiffs under § 106 including the right to authorize public performances of the movies."); *Interstate Hotel Co. of Nebraska v. Remick Music Corp.*, 157 F.2d 744 (8th Cir. 1946).

What defendants fail to understand is that they have not merely rented their video disc copies of plaintiffs' motion pictures. Rather, by extensively advertising their video disc movie program, placing video disc players in La Mancha's guest villas and renting their discs to occupants of those villas for viewing on the disc players contained therein, they have also knowingly and intentionally authorized and contributed to infringing public performances

of those motion pictures in these public villas. As both Congress and the courts have specifically stated, rentals for such a purpose are expressly prohibited by the Copyright Act. See House Report at 61 (quoted in § III A., *supra*); *Aveco, supra*. Accordingly, defendants cannot take any comfort from the first sale doctrine.

B. The Undisputed Facts Establish That Defendants' Laches And Estoppel Defense Are Not Well Taken

Defendants First Affirmative Defense contends that plaintiffs are barred from any relief by the doctrines of laches and estoppel. As discussed below, the undisputed facts establish that these contentions are not well taken.

1. Alleged Laches

To establish laches a defendant must prove three elements: (1) inexcusable delay; (2) defendant's reliance on that delay; (3) prejudice to defendant resulting from such reliance. *Loews, Inc. v. Columbia Broadcasting System, Inc.*, 131 F.Supp. 165, 186 (S.D. Cal. 1955), *aff'd* 239 F.2d 532 (9th Cir. 1956). Despite defendants' contentions to the contrary, the undisputed facts set forth below demonstrate that none of these elements exist.

Defendants first installed video disc players in La Mancha's guest villas between October and December, 1981. (Irwin Depo. 63/4-21). On October 7, 1982 plaintiffs sent defendants a letter demanding that they cease their infringing activities. (Exh. 8) Thus, less than a year after commencement of La Mancha's video disc movie program, defendants received notice that plaintiffs believed this program infringed their rights. After attempts to settle the dispute proved unsuccessful, this litigation was commenced in April, 1983, well within the applicable three-year statute of limitations period. 17 U.S.C. § 507. Since plaintiffs acted so promptly to put defendants on notice and to enforce their rights, defendants' claim of unreasonably delay sim-

ply has no basis in fact, and the laches defense thus should be summarily rejected.

2. Alleged Estoppel

Estoppel requires proof of four elements: "(1) The party to be estopped must know the facts; (2) he must intend that his conduct shall be acted on or must so act that the party asserting the estoppel has a right to believe it is so intended; (3) the latter must be ignorant of the true facts; and (4) he must rely on the former's conduct to his injury." *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 104 (9th Cir. 1960). None of these elements is present here.

Plaintiffs had no contacts or communications with defendants prior to sending their "cease and desist" letter to defendants on October 7, 1982. Accordingly, prior to October 7, 1982 there was no conduct by plaintiffs in this matter on which defendants relied.¹⁴ And, although there were limited settlement communications between the parties after October 7, 1982, plaintiffs never wavered from their position that defendants' activities constituted an infringement of plaintiffs' rights. Thus, plaintiffs also did nothing after October 7, 1982 on which defendants could have justifiably relied to their detriment. Under these undisputed facts, the estoppel defense should be summarily rejected.

VI

PLAINTIFFS ARE ENTITLED TO A PERMANENT INJUNCTION AND STATUTORY DAMAGES

It is settled that "as a general rule a copyright plaintiff is entitled to a permanent injunction when liability has

¹⁴ As noted above, the less than one year delay between commencement of defendants' infringing activities and the sending of plaintiffs' October 7, 1982 demand letter is also an insufficient basis to permit any claim of "reasonable reliance" by defendants.

been established and there is a threat of continuing violations." *Universal City Studios, Inc. v. Sony Corp. of America*, 659 F.2d 963, 976 (9th Cir. 1981), rev'd on oth. grds. 104 S.Ct. 774 (1984). Indeed, in the absence of highly unusual circumstances, denial of such an injunction would be an abuse of discretion. *Id.* Since no such extreme circumstances exist here, plaintiffs are entitled to a permanent injunction.

Plaintiffs are also entitled as a matter of right to an award of statutory damages. Section 504(c) of the Act provides that a copyright plaintiff may elect at any time before final judgment to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action. 17 U.S.C. § 504(c). These statutory damages must be in a sum not less than \$250 and not greater than \$10,000 for *each* copyright infringed. *Id.*; House Report at 162 ("Where the suit involves infringement of more than one separate and independent work, minimum statutory damages for each work must be awarded.")¹⁵

Plaintiffs have previously elected to recover statutory damages. Hence, they are entitled to a separate statutory damage award for each of the 65 copyrighted works which defendants have infringed.

VII

CONCLUSION

For all of the foregoing reasons, plaintiffs' motion for summary judgment should be granted, and a judgment

¹⁵ Although the Court may reduce the minimum award for each infringement from \$250 to \$100 when the defendant has "no reason to believe" that his conduct is not infringing (17 U.S.C. § 504(c)(2)), defendants can make no such claim here because they continued their activities for three years after being notified by plaintiffs that these activities infringed plaintiffs' rights.

granting a permanent injunction and awarding statutory damages should be entered.

DATED: September 30, 1985.

Respectfully submitted,

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
MAREN CHRISTENSEN

By: /s/ Stephen A. Kroft
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[Verification and Proof of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

—
No. 83-2594 WPG
—

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

—
DEFENDANTS' STATEMENT OF GENUINE ISSUES OF
MATERIAL FACT IN OPPOSITION TO PLAINTIFFS'
MOTION FOR SUMMARY JUDGMENT

Hearing Date: Dec. 9, 1985
Hearing Time: 10:00 a.m.
Hearing Place: Courtroom 23
—

Pursuant to Local Rule 7.14.2, of the United States District Court for the Central District of California, defendants and counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively referred to as "Irwin"), set forth the following statement of material facts as to which there exist a genuine issue. In view of the existence of the genuine issues of material fact identified in this memorandum, the Motion for Summary Judgment and Permanent Injunction filed by plaintiffs and counterdefendants Columbia Pictures Industries, Inc., *et al.* ("plaintiffs"), in this action must be denied.

STATEMENT OF GENUINE ISSUES

The following issues and the reasons why they preclude plaintiffs' Motion for Summary Judgment are more fully discussed in argument IV of Irwin's Memorandum in Opposition to Plaintiffs' Motion for Summary Judgment and in Support of Defendants Cross-Motion.

Plaintiffs Have Not Established Registration and Ownership of the Copyrighted Works:

1. Irwin contests plaintiffs' allegation that they own the copyrights or the exclusive right to license public performances of each for the 65 copyrighted works an issue in this litigation. (Plaintiffs' Proposed Statement of Uncontroverted Facts ¶ 1.) In spite of repeated requests by Irwin, plaintiffs have not timely produced certificates of registration and/or recorded assignment documents supporting their claims of ownership of the exclusive right to authorize public performances of 27 of the copyrighted works Irwin contests plaintiffs' standing to maintain this action for those works. (A list of the motion pictures for which plaintiffs have not produced certificates of registration and/or recorded assignment documents supporting their claim of ownership of the exclusive right to authorize public performances of the copyrighted works is provided in Appendices A and B, attached hereto).

Plaintiffs Have Not Been Injured:

2. Plaintiffs allege further that they derive revenues from hotel and motel exhibition of motion pictures by licensing (1) in-room, closed circuit performances, (2) delivery of over-the-air broadcast signals to cable systems, and (3) retransmission through paid cable television networks. Despite repeated requests for production of plaintiffs' licenses, and information concerning damages and injury, plaintiffs have failed to provide any of this information. Accordingly, Irwin contests plaintiffs' allegation relating

to those licenses. (Plaintiffs' Proposed Statement of Uncontroverted Facts ¶ 2 and 3.)

3. Irwin contests plaintiffs' assertion that "after instituting their video discs movie program in Fall, 1981, defendants discontinued the cable television service and thus ceased paying for performances of plaintiffs' motion pictures in La Mancha villas." (Plaintiffs' Proposed Statement of Uncontroverted Facts ¶ 5.) Irwin terminated its subscription to movie channel service because the system was not being used by guests at La Mancha either before or after the videodisc program was instituted. *Deposition of Kenneth F. Irwin*, Vol. 1, 63/22-64/11 (hereinafter "Irwin Dep." *Declaration of Kenneth F. Irwin* ¶ 10 (hereinafter "Irwin Decl.")).

Willfull Infringement is a Contested Issue:

4. The copyright law provides a wide range of statutory damages depending on whether or not the infringement was willful. Even in the event that infringement is found, however, the issue whether that infringement was willful cannot be resolved on the present record. This case presents a novel question under the copyright law that had not yet been resolved by the courts. Irwin has no reason to believe that its actions are infringing. Irwin, therefore, contests plaintiffs' allegations relating to statutory damages for willful infringement. (Plaintiffs' Proposed Statement of Uncontested Facts ¶¶ 17 and 21.) Exhibits 7, 8, and 9.

5. Irwin contests plaintiffs' allegation that plaintiffs sent a cease and desist letter to Irwin and Irwin ignored that letter. (Plaintiffs' Proposed Statement of Uncontested Facts ¶ 16.) Irwin responded to that letter promptly and contacted each of the plaintiffs directly to attempt to negotiate a settlement to this litigation. Exhibits 7, 8, and 9.

6. Irwin contests plaintiffs' characterization that "there were some limited communications between the parties in

which the possibility of settlement or resolution was discussed." (Plaintiffs' Proposed Statement of Uncontested Facts ¶ 17.) Irwin vigorously pursued negotiations with each of the plaintiffs. Exhibits 8 and 9.

La Mancha is a Private Club, Not a Hotel:

7. Irwin contests plaintiffs' characterization that La Mancha Private Club and Villas is a hotel. (Plaintiffs' Proposed Statement of Uncontested Facts ¶ 4.) La Mancha Private Club and Villas is not a hotel, motel, or inn but, rather, is a private membership club. *Irwin Decl.* ¶¶ 4 and 7; Exhibits 1, 3, 4, and 5.

8. Irwin contests plaintiffs' allegation that La Mancha is "open to the public." (Plaintiffs' Proposed Statement of Uncontested Facts ¶ 8.) The grounds of La Mancha are surrounded by locked gates that close automatically. The grounds and facilities at La Mancha are not open to members of the general public but are available only to members and guests. *Irwin Decl.* ¶ 6.

9. Irwin contests plaintiffs' characterization that they have extensively advertised La Mancha. (Plaintiffs' Proposed Statement of Uncontested Facts ¶ 9. Irwin's advertising is limited. *Irwin Decl.* ¶ 3. Further, much of the publicity that La Mancha has received has been the result of referrals or independent articles written about the La Mancha facility. Exhibit 12.

10. Irwin contests plaintiffs' contention that the availability of movies for exhibition in La Mancha's guest villas is "one of the guest services most heavily emphasized" in Irwin's advertisements and brochures. (Plaintiffs' Brief at 9; Plaintiffs Proposed Statement of Uncontested Facts ¶ 10.) Plaintiffs' characterization of Irwin's advertising is incorrect and is misleading. *Irwin Decl.* ¶ 13; Exhibits 6 and 11.

Plaintiffs' "Investigations" Present Genuine Issues of Material Fact:

11. Further, Irwin contests some of the allegations contained in the declarations of plaintiffs' investigators. Irwin has repeatedly requested discovery into the activities of these investigators, yet plaintiffs, until the filing of their motion for summary judgment, failed to produce any information regarding their activities. (Plaintiffs' Proposed Statement of Uncontested Facts ¶ 15.) Exhibit 3.

Irwin's Misuse Defense Raises Genuine Issues of Material Fact:

12. Plaintiffs' copyrights are unenforceable because plaintiffs have misused them. Specifically, plaintiffs have sought to limit the scope of private performances to home use only. Home use, however, is only one type of private performance. Plaintiffs misuse renders their copyrights unenforceable until that misuse is purged. Although Irwin has requested discovery on this misuse, plaintiffs have denied those requests. Irwin's misuse defense raises genuine issues of material fact.

13. Summary judgment must be denied because there is a genuine issue of material fact whether plaintiffs have violated the antitrust laws. Plaintiffs' violations of the antitrust laws render their copyrights unenforceable. Multiple genuine issues of material fact remain to be decided: The relevant geographic market, the relevant product market, the extent of market power exerted by plaintiffs, plaintiffs' intent to control the rental market for video discs used for nonpublic performances outside of the home, and the likelihood of success that plaintiffs will acquire or exercise monopoly power in the relevant market. Plaintiffs, however, have denied Irwin al discovery their antitrust misuse defense.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

—
No. CV 83-2594 WPG
—

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

—
FILED

OCT 21 1985

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY
—

NOTICE OF DEFENDANTS' CROSS MOTION AND
CROSS MOTION FOR SUMMARY JUDGMENT; AND
MEMORANDUM IN OPPOSITION TO PLAINTIFFS'
MOTION FOR SUMMARY JUDGMENT AND IN SUPPORT
OF DEFENDANTS' CROSS MOTION

Hearing Date: Dec. 9, 1985

Hearing Time: 10:00 a.m.

Hearing Place: Courtroom No. 23

[Table of Contents omitted in this printing]

NOTICE OF CROSS MOTION AND CROSS MOTION FOR
SUMMARY JUDGMENT

PLEASE TAKE NOTICE that on December 9, 1985 at 10:00 a.m., or as soon thereafter as counsel may be heard, defendants and counterclaimants, Professional Real Estate Investors, Inc., and Mr. Kenneth F. Irwin, will move and do hereby move the Court for an Order pursuant to Rule 56 of the Fed. R. Civ. P. for summary judgment dismissing with prejudice plaintiffs' action, and for an award of defendants' costs.

This motion is based on the grounds that plaintiffs cannot prevail on their copyright infringement claims under the facts they allege in their motion for summary judgment. Plaintiffs' essential contention is that guests at defendants' resort club are publicly performing video movies when these guests view the videos in the privacy of the villas they rent from defendants. This claim is contrary to the law.

This motion is supported by the Declarations, Exhibits, Memorandum in Support, and Statement of Uncontroverted Facts filed with the motion. A proposed Summary Judgment Order is also included.

Dated: October 18, 1985

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
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By: Jeffrey W. King
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Counter-claimants Professional Real
Estate Investors, Inc., and Kenneth
F. Irwin

**MEMORANDUM IN OPPOSITION TO PLAINTIFFS'
MOTION FOR SUMMARY JUDGMENT AND IN SUPPORT
OF DEFENDANTS' CROSS MOTION**

INTRODUCTION

Plaintiffs filed this action alleging copyright infringement by Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively "Irwin").¹ Plaintiffs essentially contend that Irwin operates a resort facility, La Mancha Private Club and Villas, and violates plaintiffs' copyrights in certain motion pictures by renting videodiscs of the motion pictures to the guests at Irwin's facilities. Inasmuch as Irwin is acknowledged to have the right to rent videodiscs, plaintiffs contend that the playing of the videodiscs by the guests at La Mancha in the villas they rent constitutes "public performance." The issue raised by the complaint, therefore, is whether guests at Irwin's La Mancha facilities are "publicly performing" the videodiscs when they view the videos in the privacy of the villas they have rented from Irwin.

Plaintiffs have moved for summary judgment on their infringement claim and for an award of damages.² Irwin opposes that motion on several grounds and cross moves for summary judgment. To avoid repetition, Irwin files this memorandum both in support of its motion for summary judgment and in opposition to plaintiffs' motion.

Plaintiffs' claim of infringement must fail as a matter of law. Plaintiffs do not, and cannot, claim that the rental of the videodiscs constitutes infringement. Rental of videodiscs is entirely lawful. Irwin purchased authorized copies of the videodiscs, for which plaintiffs were paid

¹ The complaint also names Erland Kyllonen. Irwin understands that Mr. Kyllonen has not been served with the complaint.

² Plaintiffs also seek summary judgment on two of Irwin's affirmative defenses. These claims are discussed in Argument V, *infra*.

royalties, and has obtained the right to rent the videodiscs at issue. Plaintiffs also do not claim that Irwin performed the videodiscs in any common area of the La Mancha facility. Plaintiffs only claim, therefore, is that Irwin authorized its members and guests to "publicly perform" the videodiscs. Viewing of the videos, however, takes place only in the seclusion of the villas rented by guests or members at Irwin's La Mancha facilities. By every accepted definition, these performances are private.

As a result, plaintiffs cannot prevail on their copyright claim as a matter of law. Plaintiffs' motion should be denied and Irwin's cross motion for summary judgment granted. Moreover, plaintiffs' motion is fatally defective because there remain a number of genuine issues of material fact, such as whether Irwin's facility is a private club, whether plaintiffs have sustained any injury, and whether Irwin acted in good faith in renting the videodiscs. In addition, Irwin's affirmative defenses of misuse and antitrust violations raise a number of factual issues that remain to be decided. These defenses are a total bar to any recovery by plaintiffs and therefore preclude summary judgment for plaintiffs.

These factual issues, however, do not prevent summary judgment for Irwin. Irwin's motion raises a single issue—public performance. Even assuming plaintiffs' misstated facts, there has been no copyright infringement as a matter of law.

BACKGROUND

Irwin owns and operates a private luxury club, La Mancha Private Club and Villas, in Palm Springs, California. La Mancha is not a hotel, motel, or inn but, rather, a private membership club that makes available to its members and guests apartment and condominium accommodations for short-term rental. La Mancha is licensed by the City of Palm Springs for occupancy as an apartment

and condominium complex. See Exhibit 1. Until membership is full, non-members from the general public are allowed to stay at La Mancha within certain limits.

La Mancha was conceived by Irwin in 1973 as a private vacation home community for people who want the advantages of a second home in a resort community without the disadvantages of ownership, such as maintenance and repair. *Deposition of Kenneth F. Irwin*, Vol. I, 33/3-34/8 (hereinafter "*Irwin Dep.*"). Accommodations at La Mancha were specifically designed to meet the needs of condominium owners. The facility was, therefore, structured along the lines of a group of condominium apartments.³

A wide variety of luxury amenities and personal services are available to members and guests at La Mancha. Recreational facilities are also available. Fifty private apartment and condominium villas are available in one-, two-, or three-bedroom floor plans. Each villa has its own fully equipped kitchen, living room, and one or more bedrooms. Most villas have their own private pool and a secluded patio. Several also have private tennis courts. In addition, there are tennis courts and a health club on the premises. Villa accommodations at La Mancha rent from \$125 per night to \$720 per night and a minimum stay of three nights is generally required during the winter season. *Irwin Dep.*, Vol. I, 58/7-22. Accommodations are available at La Mancha by the week, month, or season. Generally, villas are not rented by the day but, rather for multiple days. *Declaration of Kenneth F. Irwin* ¶ 8 (hereinafter cited as "*Irwin Decl.*"). La Mancha does not rent by the hour.

La Mancha is a private club and membership at La Mancha is by invitation only. All persons renting accommodations at La Mancha must be either members, guests

³ The articles of incorporation of Professional Real Estate Investors, Inc., reflect the broader purpose of the La Mancha facility. Exhibit 2.

of members, or guests of management. A member of the general public, however, can make a reservation at La Mancha without sponsorship from a member.⁴ A nonmember can also make a reservation through a travel agent. A nonmember, however, is limited to three visits to La Mancha unless he is invited and becomes a member. As a result, Irwin advertises the availability of La Mancha to the public, although such advertising is not extensive. In addition, the advertisements usually state that La Mancha is a private club with limits on nonmembers who stay there. Exhibit 4.

Visiting the club is one of the prerequisites to membership. Invitations to membership in La Mancha are offered only after the prospective member has made two or three visits to La Mancha and generally no more than three visits by nonmembers are allowed. See *Irwin Decl.* ¶ 5; Exhibit 5. Persons have been refused membership and accommodations have been refused to nonmembers after they have visited La Mancha for the maximum three times. *Irwin Dep.*, Vol. I, 51/7-10; *Irwin Decl.* ¶ 5.

The villas at La Mancha provide an intimate, secluded, private atmosphere. Most of the villas have private pools and sun decks surrounded by privacy walls. Each villa has its own private entrance. Many of the villas have private gates and the entire La Mancha complex is surrounded by locked gates that automatically close. *Irwin Dep.* at Vol. I, 19/18-25. Only members of guests are admitted to the grounds. *Irwin Decl.* ¶ 6. The villas afford their occupants a significant degree of privacy and that privacy is one of the principal attractions of La Mancha.

⁴ La Mancha, unlike a hotel or inn, is not a public accommodation and is not required under California law to accommodate non-members. *Irwin Decl.* ¶ 4. Non-members are allowed to rent accommodations at La Mancha only as guests. Non-members are issued guest cards. Exhibit 3, and are informed that their rights as guests of La Mancha Private Club Villas are limited. Exhibit 3.

In addition to the other features available to guests and members at La Mancha, each La Mancha villa is equipped with an RCA "SelectaVision" videodisc player.⁵ The videodisc players are "play-only" units and are not capable of recording discs or tapes. The videodisc players were lawfully acquired by Irwin from RCA Corporation. Irwin is an authorized RCA dealer. Other than a demonstration unit and units for sale, none of the videodisc player units have been at any time located in any of the common areas of the club. Videodiscs are not performed on the demonstration unit in the gift shop for the entertainment of members or guests. The only performance of a videodisc by Irwin is in the gift shop to demonstrate for members or guests the operation of the videodisc players at the request of the member or guest. During such demonstrations only a small portion of a disc is shown.

La Mancha also has an inventory of videodiscs which are available for either purchase or rental in the La Mancha gift shop. All the discs were lawfully acquired from RCA Corporation. Videodiscs are not delivered to villas; rather a member or guest must come to the gift shop to rent or purchase a videodisc. *Irwin Dep.*, Vol. 1, 23/20-24/1. Members or guests may also bring their own discs to La Mancha or may rent or borrow discs from other sources for use on the videodisc players in the villas.

In addition to the videodisc players, each villa is equipped with a large screen television set. The large screen sets, however, were installed before purchase and installation of the videodisc players were even considered. These television sets, as are the videodisc players, are merely one of the many luxury amenities provided to the guests and members of La Mancha.

The villas do not receive transmissions of motion pictures from any external source. Prior to 1983, only about

⁵ Videodisc players are also available for sale.

fifteen of the villas had a cable movie channel available. This service was discontinued over a year after the purchase of the videodisc players because there was little use of the service both before and after the videodisc players were installed. *Irwin Decl.* ¶ 10. In contrast to plaintiffs' assertions, the cable movie channel was not "replaced" by the videodisc players. *Irwin Dep.*, Vol. 1, 63/22-64/11; *Irwin Decl.* ¶ 10.

Plaintiffs have challenged, as copyright infringement, Irwin's rental of videodiscs to members and guests who stay at La Mancha. Plaintiffs have now moved for summary judgment on this infringement claim. Their motion must be denied because their position is contrary to the law and there remain genuine factual issues that preclude plaintiffs' motion. Irwin cross moves for summary judgment. Even adopting plaintiffs' misstated facts, there is no copyright infringement and plaintiffs' complaint should be dismissed.

ARGUMENTS

I.

RENTAL OF VIDEODISCS BY IRWIN IS LAWFUL

Any challenge to Irwin's right to rent videodiscs cannot withstand scrutiny. Under a doctrine known as the "first sale doctrine," any person who purchases or obtains a legitimate copy⁶ may, "without the authority of the copyright owner . . . sell or otherwise dispose of the possession of that copy . . ." 17 U.S.C. § 109(a); *accord*, *United States v. Moore*, 604 F.2d 1228, 1232 (9th Cir. 1979)

⁶ There is no doubt that the videodiscs sold or rented by Irwin are legitimate copies. Irwin lawfully acquired those discs from RCA and a royalty was paid to the plaintiffs for each copy. Plaintiffs admit that RCA was licensed to produce these videodiscs. Plaintiffs' Proposed Statement of Uncontroverted Facts ¶ 11; Memorandum in Support of Plaintiffs' Motion for Summary Judgment at 10 (hereinafter "Plaintiffs' Brief").

("[T]he copyright owner has no right under the copyright statute to restrict subsequent sales or transfers of that copy.") Congress expressly stated that "the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79, *reprinted in* 1976 U.S.Code Cong. & Ad. News 5659, 5693.

The basis of the first sale doctrine is well founded. The main purpose of the copyright law is to promote continued creation of new works by securing to an author a fair return for the value of his work. H.R. Rep. No. 2222, 60th Cong. 2d Sess. 7 (1909); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, (1984). To ensure that the owner of a copyright collects a fair royalty, the law allows him to set and collect a royalty when he first sells each copy of the work. Additional royalties on subsequent sales or rental of that copy would be a windfall to the copyright owner at the expense of other businessmen who have taken the risks to create a new market for the goods. For example, Irwin invested over \$35,000 to purchase the videodisc equipment and videodisks. *Irwin Decl.* ¶ 11. Irwin, not plaintiffs, runs the risk that the video rentals will not return sufficient income to cover these expenses—which is in fact what has happened so far. *Id.* Plaintiffs have already been paid a royalty on every videodisc Irwin purchased. Moreover, that royalty was set by plaintiffs with full knowledge that purchasers, such as Irwin, would rent the videodiscs. It is patently unfair to allow plaintiffs, who took none of the risk to develop the market at La Mancha, to receive additional royalties if Irwin is successful.

Absurd results would occur absent the first sale doctrine. To illustrate, Hertz would have to pay a royalty to the automobile manufacturers for every rental of a car because the car contains many patents and design creations owned by the manufacturers. Similarly, a department store would have to pay a royalty on every dress it sold

if a pattern was copyrighted. The importance of ignoring the first sale doctrine was succinctly explained during Senate hearings on proposed legislation recently sought by the movie studios to require royalties for video rentals:

Mr. Chairman, I think this effort is a back door attempt to achieve market control under the guise of copyright protection. I think, from my reading of the copyright literature, the first purpose of the copyright grant was the public interest, and the secondary purpose of the copyright grant was to give a reward for inventive and creative genius.

It occurred to me last evening, in the middle of the night, that the movie studios and performers should be paying a royalty to the creative genius at Sony and the other manufacturers who have created this expanded market for movies and artists. I have one quote that I'll show you what I mean by an expanded market. In this ITA transcript that I will refer to in my testimony, there is a *Star Trek*—Paramount makes a reference to "*Star Trek II*" seeing a year end goal of 150,000 cassettes as a reasonable target. That will mean, they say, \$4 million to them at wholesale just for that cassette release, and I don't see them offering Sony and the manufacturers who made that possible any part of that.

Statement of Robert McEwen, Audio and Video Rental Bill: Hearings on S.33 before Subcommittee on Patents, Copyrights and Trademarks of the Committee on the Judiciary United States Senate, 98th Cong., 1st Sess., 137. See also Pat. Trademark & Copyright J. (BNA) 175-76 (1983) (which reports on the testimony of Professor David Lange in which Professor Lange noted that the internal conceptual structure of the copyright law would be bent out of shape if the first sale doctrine were to be rescinded with respect

to recordings of audiovisual works—the result plaintiffs seek here). The creator, under our system, is allowed to set and collect a royalty when the item is first sold. Plaintiffs set and already collected their royalties when Irwin purchased the videodisks.

Plaintiffs argue that the first sale doctrine is not applicable to Irwin because he rents the videodisks to members and guests at La Mancha who, in turn, view them in their villas. Plaintiffs confuse the first sale doctrine with their public performance argument. The first sale doctrine does apply. Under that doctrine, Irwin is allowed to rent or otherwise dispose of the videodisks without plaintiffs' approval. Accordingly, plaintiffs are really arguing, under the guise of the first sale doctrine, their basic contention that the viewing of the videos by guests in the private villas they rent is public performance.

Attempts to limit the first sale doctrine have been rejected by the courts in the past. In *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86 (2d Cir. 1940), Judge Learned Hand held that the copyright owner's power to control rental of phonograph records which contained copyrighted songs ends with the sale of the record. As have plaintiffs in this case, plaintiff in *RCA* tried to limit use of the phonograph records to home use. RCA employed a notice on the records which stated that the records were "Only for Non-Commercial Use on Phonographs in Homes. Manufacturer and Original Purchase Have Agreed This Record Shall Not Be Resold Or Used For Any Other Purpose." *Id.* at 87.

The court in *RCA*, however, concluded that the restriction was without effect. Rather, once the phonograph record is sold, the copyright owner cannot restrict further distribution of that copy:

It would be very difficult to see how he, or *a fortiori* the maker of the records, could impose valid restrictions upon their resale. . . . [W]e think that the "common-law property" in these

performances ended with the sale of the records and that the restriction did not save it; and that if it did, the records themselves could not be clogged with a servitude. . . . Restrictions upon the uses of chattels once absolutely sold are at least *prima facie* invalid.

Id. at 88-89; *cf.*, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908); *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F.Supp. 881 (E.D. Pa. 1964).

Finally, plaintiffs' argument that the new video technology should not allow Irwin to avoid paying royalties cannot withstand scrutiny. Not only is this argument irrelevant, it is also inaccurate. First, Irwin already paid plaintiffs royalties when it purchased the videodisks. Second, Congress was aware of the existence of videodisc and videotape technology when it enacted the current version of the copyright statute in 1976. In fact, the existence and promise of such technology was specifically noted by the Register of Copyrights in a 1961 Report to Congress suggesting changes in the copyright law which ultimately led to the new copyright law in 1976. In that report, the Register responded to the urgings of the motion picture producers "that the performance right in motion pictures should be extended to what is clearly private performance, including performances given in private homes." *Copyright Law Revision, Report of the Register of Copyright*, 29 (July 1961). Exhibit 14. In rejecting the movie studios' proposals, the Register noted that:

New technical devices will probably make it practical in the future to reproduce televised motion pictures in the home. We do not believe the private use of such a reproduction can or should be precluded by copyright.

Id. at 30. This technology was not only foreseeable, but existed when Congress passed the present copyright law

in 1976. Yet, Congress chose not to prohibit or limit in any way the rental of videos.

Furthermore, Congress revisited the issue in 1984. Plaintiffs and other interested parties attempted to secure legislation limiting the first sale doctrine with respect to rental of videodiscs and videotapes. See Senate Bill 33, Exhibit 15. Congress, in full recognition of plaintiffs' argument and the present law permitting rental of videos, declined to legislate any change. Plaintiffs seek to achieve in this court what they failed to obtain in Congress.

It is plaintiffs, in fact, who chose to take advantage of the videodisc technology—technology developed by others—as a medium to exploit their copyrighted works. This is not a case of technological advancement impairing plaintiffs' rights. Plaintiffs have availed themselves of the technology eagerly, in hopes of greater profits. Plaintiffs were fully aware of the video technology and the rental of videos when they chose to license RCA to produce videodiscs. Irwin claims no immunity from the copyright laws because of recent advances in technology as asserted by plaintiffs. Plaintiffs' Brief at 23-24. Rather, Irwin has merely purchased what plaintiffs sold, and plaintiffs have already received their lawful royalties on those sales.

II.

VIEWING VIDEODISCS IN THE PRIVATE VILLAS AT LA MANCHA IS NOT A PUBLIC PERFORMANCE

Plaintiffs essentially claim that the viewing of videodiscs by guests and members in the privacy of the villas they rent at La Mancha is a public performance. 17 U.S.C. § 106 (1982). This argument, that viewing videos in private villas is a public performance, however, is contrary to the law and is logically absurd. The villas are not "public" places under the copyright law or any other law.

Under the copyright law, to perform or display a work "publicly" means:

- (1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or
- (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public are capable of receiving the performance or display receive it in the same place or in separate places or at the same time or at different times.

17 U.S.C. § 101 (1982).

Plaintiffs do not claim that Irwin transmitted the videodiscs to its members or guests. Accordingly, if performances at La Mancha are found to be public it can be only under paragraph (1) of section 101. The two criteria set out in paragraph 1 are distinct, yet, they cannot be read in isolation from one another. *Columbia Pictures Industries, Inc. v. Redd Horne*, 568 F. Supp. 494, 499-500 (W.D. Pa. 1983), *aff'd on other grounds*, 749 F.2d 154 (3d Cir. 1984). Congress' primary concern was with the composition of the audience. *Id.* at 500. The legislative history of section 101 makes this point clear:

Under clause (1) of the definition of "publicly" in section 101, a performance . . . is "public" if it takes place "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." One of the principal purposes of the definition was to make clear that, contrary to the decision in *Metro-Goldwyn-Mayer Distributing Corp. v. Wyatt*, 21 C.O.Bull. 203 (D.Md. 1932), performances in "semi-public" places such as clubs, lodges, fac-

tories, summer camps, and schools are "public performances" subject to copyright control. The term "a family" in this context would include an individual living alone, so that a gathering confined to the individual's social acquaintances would normally be regarded as private. Routine meetings of businesses and governmental personnel would be excluded because they do not represent the gathering of a "substantial number of persons."

H.R. Rep. No. 1476, 94th Cong., 2d Sess. 64, *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5677-78.

The normal composition of the audience helps to determine whether a place is public. A performance in a private place could be considered a public performance if attended by a substantial portion of the public. Similarly, a performance that occurs in a place that is normally public but has been reserved by a limited group for a private purpose would not constitute a public performance. For example, a small group or a family and its social acquaintances could rent a bar, or a theater, or some other facility normally "open to the public" for a private gathering. A performance in those circumstances would not be a public performance. Similarly, business and government buildings are generally open to the public, but the legislative history expressly states that "[r]outine meetings of businesses and governmental personnel would be excluded because they do not represent the gathering of a 'substantial number of persons.'" *Id.* Hence, the composition of the audience must to some degree inform the judgment of whether or not a place is open to the public.

Applying this definition to La Mancha, the nonpublic nature of the villas becomes apparent. The villas are normally rented only to families. *Irwin Dep.*, Vol I, 43/26-44/13. During occupancy of the villas, no one from the public is allowed access to the villas. The villas are, in essence,

private vacation homes which are occupied only by a normal circle of a family and its social acquaintances.

To avoid the obvious privacy of La Mancha's villas, plaintiffs rely principally on two recent decisions in Pennsylvania construing "public performance" under the copyright law in a different factual setting. *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 568 F. Supp. 494 (W.D. Pa. 1983), *aff'd*, 749 F.2d 154 (3d Cir. 1984); *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F. Supp. 315 (M.D. Pa. 1985). Their reliance is misplaced for even these decisions lend no support for the contention that La Mancha's villas are "public." The decisions in these cases are not necessarily correct, and the *Aveco* case is now being appealed. Nonetheless, even these decisions support the obvious; viewing videodiscs in the villas at La Mancha are private, not public, performances.

The *Redd Horne* case involved a "video showcase" in which patrons paid \$5.00 to \$7.00 dollars, selected a videotape from a sales counter in the front of the store and went to one of the small viewing rooms in the rear of the store. The performances in *Redd Horne* were under the direct control of management, not the individual customer. A store employee inserted the tape into the playback unit and transmitted the movie to the viewing room upon a signal from the patron.

The principal issue facing the court in *Redd Horne* was whether performances in such a setting were public or private. The District Court based its decision on the fact that defendants' operations "more closely resemble mini-movie theaters than living rooms away from home." *Id.* at 500. The court noted that there were movie posters displayed on the premises, popcorn and drinks were available prior to entering the viewing rooms, the motion pictures were performed by employees, and access to the rooms was limited to paying customers. Accordingly, the court held that "the showcasing operation is not distin-

guishable in any significant manner from the exhibition of films at a conventional movie theater." *Id.* The guiding principle in the court's analysis was the similarity of the operation to a movie theater. The court also concluded that Redd Horne transmitted the copyrighted works which, under the copyright law, is considered a public performance regardless where the transmission is received.

Redd Horne was affirmed by the Third Circuit which, like the district court, focuses on the similarity of the services offered by defendant to those of a movie theater.

The record clearly demonstrates that showcasing a video cassette at Maxwell's is a significantly different transaction than leasing a tape for home use. Maxwell's never disposed of the tapes in its showcasing operations, nor did the tapes ever leave the store. At all times, Maxwell's maintained physical dominion and control over the tapes. Its employees actually played the cassettes on its machines. The charges or fees received for viewing the cassettes at Maxwell's facilities are analytically indistinguishable from admission fees paid by patrons to gain admission to any public theater.

749 F.2d at 160.

In contrast, La Mancha's facilities do not resemble a movie theater. There are no movie posters, popcorn machines, or short-term room rentals to view a movie. Nor are La Mancha's \$125 to \$720 a day rental fees "analytically indistinguishable from admission fees paid by patrons to gain admission to any public theater." Rather, La Mancha provides precisely the "living rooms away from home" referred to by the District Court in *Redd Horne*.

Similarly, the District Court in *Columbia Pictures Industries, Inc. v. Aveco*, 612 F. Supp. 315 (M.D. Pa. 1985), focused on the similarities of the defendants' operation to

a movie theater. In *Aveco*, as in *Redd Horne*, defendants rented video cassettes for use in separate viewing rooms in the fear of the store. Rather than transmitting the signal to the room, however, each viewing room was equipped with a video cassette player which the customer operated. The viewing room could accommodate two to twenty-five people.

The court once again analyzed the activity on the basis of whether it more closely resembled a movie theater or home use. In rejecting defendants' argument that its operations were similar to home use, the court stated that:

The Nickelodeon [Aveco's store] clearly offers a service quite different from the service offered by a store that engaged in rental of video cassettes alone. . . . But for the Defendants' rental of the Nickelodeon viewing rooms, individuals who rent videocassettes would view them in a private place, i.e., the individual's home, rather than in a place open to the public such as Maxwell's or the Nickelodeon. It is this factor that distinguishes the Defendants' activities from simple rental of videocassettes to home users under the Copyright Act. As pointed out by the Plaintiffs, this difference is of considerable importance to the copyright holders: ". . . A person's home is not rented out in two hour shifts to afford separate groups of persons the opportunity to see a variety of motion pictures. Nickelodeon's rooms are." Plaintiffs' reply brief at 7.

Id. at 319-20 (emphasis added).

Plaintiffs themselves recognized that *Aveco* involved a theater-like operation. Plaintiffs who brought the present suit against Irwin also brought the *Aveco* suit. These plaintiffs, however, did not challenge the *Aveco* defendant's practice of renting a viewing room to allow the customer to play video cassettes the customer owned or rented else-

where. Rather, the plaintiffs challenge only the "renting of video cassettes coupled with renting viewing rooms which, in Plaintiffs' view, is legally indistinguishable from the operation of a traditional movie theatre." *Id.* at 316.

Applying these principals to La Mancha, it becomes clear that members and guests at La Mancha are not publicly performing the videodiscs in their villas. Irwin's activities are indistinguishable from simple rental of videodiscs to home users. First, La Mancha does not rent "viewing rooms." Rather, it rents luxury condominiums. The villas do not resemble "mini-movie theaters." Rather, with living rooms, dining rooms, kitchens, and separate bedrooms, the villas were designed to be and are homes away from home. Further, at \$125 to \$720 a day, with a minimum three day stay, the fees are certainly distinguishable from the theater-like admission fees charged in the *Redd Horne* and *Aveco* cases. Finally, as plaintiffs themselves noted in their briefs in the *Aveco* case, "A person's home is not rented out in two hour shifts to afford separate groups of persons the opportunity to see a variety of motion pictures." *Id.* at 320. Neither are the villas at La Mancha.

Moreover, private viewing is not restricted to home or home-like use. The courts in *Redd Horne* and *Aveco* use the dichotomy of theater-like use versus home-like use because these are the two extreme examples of public and private use. Performance at a movie theater is the essence of public performance. Similarly, home viewing is undoubtedly private. These extremes, however, do not define the limits of public and private viewing. Performing video movies at a bar open to the public is not like a theater but would be considered a public performance. There are also many uses that are not similar to home viewing that are still considered private. Congress, in enacting the copyright law, recognized that performances held in lounges, dining rooms, and other *public areas* of private clubs, and schools would be considered private if the movie is being viewed only by "a normal circle of a family and its social

acquaintances . . . " 17 U.S.C. § 109(c); H.R. Rep. No. 1476, 94th Cong., 2d Sess. 64, *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5677-78. Congress also expressly noted that private performances could occur in government and business offices notwithstanding the fact that these buildings are not similar to homes. Rather, Congress recognized that if the people viewing the motion picture were similar to those that would view it in a home—"a normal circle of a family and its social acquaintances"—then the performance is private. *Id.* Thus, the issue remains whether the videodiscs were viewed in private or in public, not whether they were viewed in or out of the home.

Viewing videodiscs in the villas at La Mancha is very similar to the clearest example of private viewing—home use—and analogies need not be drawn to less obvious private uses. Plaintiffs attempt to circumvent the intent of Congress by arguing that the entire La Mancha facility is a "public place." Under plaintiffs' analysis, the existence of any common area open to the public converts an entire facility into a public place. Apartments and condominiums, the homes of millions of people, would become public places according to plaintiffs' argument simply because their lobbies re open to the public or because the buildings house restaurants or shops.⁷ Under plaintiffs' analysis a person who rents, rather than owns, his home cannot view movies without violating the copyright law because his apartment house may have a public lobby or his apartment was "open" to the public until he rented it. Apparently, only those lucky enough to own a home can enjoy private performances. Similarly, every business office and government building would be considered public and, therefore, any

⁷ As explained more fully in Argument III, *supra*, La Mancha does not have a lobby open to the public. Rather, La Mancha is closed to the public by gates so that members of the public cannot freely enter the facilities or go to the lobby. *Irwin Dep.*, Vol. I, 19/18-25; *Irwin Decl.* ¶ 6. Accordingly, even under plaintiffs' argument, La Mancha remains private.

performance at those facilities would be considered public under plaintiffs' reasoning. Yet, the legislative history specifically states that performances at "meetings of businesses and government personnel" are not public performances. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 64, reprinted in 1976 U.S. Code Cong. & Ad. News 5659, 5678.

Plaintiffs miss the key factor in the *Redd Horne* and *Aveco* decisions: The issue is not whether there was any common area open to the public, but whether the entire facility is like a movie theatre and therefore considered a "public place." In *Redd Horne* and *Aveco*, the courts found the facilities indistinguishable from a movie theatre and therefore public places. La Mancha, in contrast, is not a mini-movie theater. Rather, La Mancha is indistinguishable from a vacation home. A vacation home does not lose its private characteristic simply because the owner only occupies it for part of the year. The viewing of videodiscs in the villas at La Mancha is a private performance not substantially different from home viewing.

III.

THE VILLAS AT LA MANCHA ARE PRIVATE

The villas at La Mancha are not "open to the public" for purposes of the copyright laws. The issue whether rental villa accommodations are private or public under the copyright law is one of first impression. The privacy of rental accommodations, however, is well established in other contexts. The law generally recognizes that villas of the type rented at La Mancha are private and are not "open to the public." Further, the undisputed facts of this case conclusively establish the privacy of the villas.

La Mancha is not a hotel. See Argument IV. A., *infra*. Yet, even accepting for purpose of this motion plaintiffs' characterization of La Mancha as a hotel, the villas are not public. The concept of a public place is not unique to

the copyright law. Logic and reason compel the conclusion that the degree of privacy enjoyed in a place is determinative of the public or private character of that place. The concept of a private or public place arises frequently in Fourth Amendment cases:

United States v. Santana stated that whether a warrantless arrest was unlawful turned, first, on "whether when the police first sought to arrest [the defendant], she was in a public place." 427 U.S. at 42, 96 S.Ct. at 2409. Public place, in turn, was determined by whether the arrestee had a reasonable expectation of privacy. *Katz v. United States*, 389 U.S. 347, 88 S.Ct. 507, 19 L.Ed.2d 576 (1967), at the time and place of her arrest. *Santana*, then, stands for the proposition that when the person arrested has no reasonable expectation of privacy, probable cause suffices and no warrant is required. The clear implication is that a warrant or showing of exigent circumstances may be required when the suspect has a reasonable expectation of privacy.

United States v. Hall, 468 F. Supp. 123, 127 n.7 (E.D. Tex. 1979).

A hotel room is clearly subject to the Fourth Amendment protection described above. *Hoffa v. United States*, 385 U.S. 293, 301 (1966). While the scope of that protection varies under certain circumstances, *United States v. Agapito*, 620 F.2d 324, 331 (2d Cir.), cert. denied, 449 U.S. 834 (1980), the Supreme Court has expressly recognized that the Fourth Amendment protects the privacy of rental accommodations. *Hoffa*, 385 U.S. at 301.

It is also well established under the common law that a guest at an inn or a hotel has a right to privacy and to the peaceful enjoyment of his accommodations. *Frewen v. Page*, 238 Mass. 499, 131 N.E. 475 (Mass. 1921); *DeWolf v. Ford*, 193 N.Y. 397, 86 N.E. 527 (1908). In *People v.*

Vaughan, 65 Cal. App. 2d Supp. 844, 150 P.2d 964, 967-68 (1944), the California Appellate Court specifically noted that the rooms in a hotel are private. The guests' exclusive right to use the accommodation is limited only by the need of the innkeeper to discharge its duties or for access in a proper manner and at reasonable times. *E.G.*, *People v. Minervini*, 20 C.A. 3d 832, 98 Cal. Rptr. 107 (1971) (to prevent theft of property). In fact, an innkeeper is liable for damages if he or his employees unjustifiably enter the guests' rooms. *Frewen v. Page*, 131 N.E. at 475; *Wade v. Thayer*, 40 Cal. 578 (1871).

In view of the private nature of the La Mancha club, members and guests have a substantially greater expectation of privacy than would the guests of an inn or hotel. Persons wishing to enter La Mancha must have a pass or must be coming to La Mancha to rent a villa. The gates close automatically and members of the public are not free to enter the grounds. *Irwin Decl.* ¶ 6. Inasmuch as La Mancha is not a hotel, motel, or inn, guests or members of La Mancha are entitled to at least the same level of privacy afforded guests at a hotel.

The privacy of the club as a whole, however, is not controlling. Rather, the privacy of the club merely augments and reinforces the substantial privacy afforded members and guests in their villas. Even if the grounds of La Mancha were found to be "open to the public," viewing the videos in the villas is nonetheless private. At La Mancha, performances do not take place in "common" areas of the club, such as the restaurant or lobby, but only in the intimacy of the individual private villas.* The character of the villas controls the determi-

* In contrast to cases in which performances in "private clubs" were held to be public, performances at La Mancha are private. Cf. *Broadcast Music, Inc. v. Walters*, 181 USPQ 327 (N.D. Okla. 1973); *Lerner v. Schectman*, 223 F. Supp. 354 (D. Minn. 1964); *M. Witmark & Sons v. Tremont Social and Athletic Club*, 188 F. Supp. 787 (D. Mass. 1960); *Lerner v. Club Wander In, Inc.*, 174 F. Supp. 731 (D. Mass. 1959).

nation whether performances are public or private because viewing is entirely confined to the villas.

Accordingly, the villas are private: they are considered private under the Fourth Amendment; they are considered private under the state and common laws governing rentals of hotels and apartments; and they fall within the definition of private under the copyright law.

IV.

PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT MUST BE DENIED BECAUSE THERE EXIST GENUINE ISSUES OF MATERIAL FACT RAISED BY PLAINTIFFS' MOTION

Plaintiffs are not entitled to summary judgment because there remain several genuine issues of material fact. Equally significant, Irwin has raised affirmative defenses of copyright misuse. These issues cannot be judged on the current facts because discovery is not yet completed. These defenses, however, totally bar any recovery by plaintiffs. As a result, plaintiffs cannot obtain summary judgment until the evidence concerning these affirmative defenses has been presented.

A. Genuine Issues of Material Fact

Plaintiffs in their brief raise facts, which simply are not true. Each of the facts which are in dispute are identified below.

La Mancha Is Not a Hotel Open To The Public

Plaintiffs argue that La Mancha is a hotel open to the public. The facts are that La Mancha is not a hotel, but

Performances in these cases were held to be public because the audience was public, not because the clubs were "public" places. In each of these cases, performances were held in common areas of the club, such as the bar or restaurant. In contrast, videodiscs can be viewed at La Mancha only in the privacy of the members' or guests' villas.

rather is licensed as a private club and condominium apartments. Exhibits 1, 3, and 4. Moreover, La Mancha is not open to the general public. *Irwin Decl.* ¶ 6. Rather, members of the general public have limited access to La Mancha as prospective members of the club. This is no different from any other private club that allows prospective members access under limited conditions. Exhibit 5.

Moreover, this issue is highly material. Plaintiffs acknowledge that if La Mancha is a private club it is considered a "semi-public place" and a public performance can occur in such a place only if there is "a substantial number of persons outside of a normal circle of a family and its social acquaintances" gathered. *Plaintiffs' Brief* at p. 15. Plaintiffs make no contention, nor can they, that the villas at La Mancha are occupied by anything but a family and its social acquaintances. The evidence of record clearly establishes this fact. *Irwin Dep.*, Vol. I, 43/26-44/13. Accordingly, if La Mancha is determined to be a private club then, by plaintiffs' own admissions, the viewing of the videodiscs in the villas is considered private. See H.R. Rep. No. 1476, 94th Cong., 2d Sess. 64, reprinted in, U.S. Code Cong. & Ad. News 5659, 5677-78 (noting that a private club is, at best, a semi-public place—not a place "open to the public").

As explained above, however, whether La Mancha is considered a private club or a hotel, the viewing of the videodiscs by guests in the privacy of their rented villas does not constitute a public performance. Accordingly, Irwin, not plaintiffs, is entitled to a summary determination on this issue.

La Mancha Does Not Extensively Advertise

Plaintiffs also contend that Irwin "extensively advertised" the La Mancha facilities and "heavily emphasized" in those advertisements the availability of videodiscs. *Plaintiffs' Brief* at p. 7-8. Apparently, plaintiff is trying

to imply that this advertising renders La Mancha a public place.

Advertising is irrelevant to the determination whether a place is public or private. One can readily imagine a situation in which an apartment or condominium complex advertises heavily. Vacation resorts commonly do so. That advertising activity, however, does not convert those facilities to places "open to the public," depriving the residents of their privacy. On the other hand, plaintiffs would readily concede that the lack of advertising does not make a place more private. Surely plaintiffs would condemn a public performance in an establishment so popular that it need not advertise.

Irwin, however, does not extensively advertise the availability of videodiscs at La Mancha. To the contrary, Irwin's advertising is relatively modest. Exhibit 11. Irwin spends less than 10% of the total receipts at La Mancha on advertising. See *Irwin Decl.* ¶ 13; *Irwin Dep.*, Vol. II, 147/20-22. Moreover, the availability of the videodiscs is not "heavily emphasized" as claimed by plaintiffs. In an attempt to dramatize their claim that Irwin emphasizes videodisc availability, plaintiffs have provided a photocopy of what they claim to be "a La Mancha brochure." *Plaintiffs' brief* at 9. Even on its face, the brochure does not "heavily emphasize" videodiscs any more than the availability of cable television and large screen T.V. sets. Furthermore, what plaintiffs show is simply one panel of an eight panel brochure which was used only for a short period of time. Exhibit 6.

Copyright Ownership Remains in Issue

There remains a question of the registration and ownership of various copyrights. Plaintiffs now claim that only 65 copyrighted works are involved in this litigation. Plaintiffs have, until filing this motion, failed to produce copyright registrations and/or recorded assignments for 27 of the copyrights at issue despite repeated requests to do

so during discovery. These works are identified in Appendix A to Irwin's Statement of Genuine Issues. Moreover, plaintiffs have been under a continuing obligation to produce those documents as required by Local Rules 6 and 9. It is unfair to allow plaintiffs to produce these certificates now when Irwin has been denied an opportunity to review them during the discovery process and to seek additional discovery concerning these matters.

Moreover, even accepting plaintiffs' untimely submission of additional supporting documents as exhibits to plaintiffs' motion for summary judgment, ownership of the exclusive right to authorize public performances of 16 of the works is still not established. These 16 movies are identified in Appendix B to Irwin's Statement of Genuine Issues. Hence, plaintiffs have not produced sufficient documents to support their claim of ownership of the exclusive right to publicly perform 27 (or at least 16) of the copyrighted works. Absent proof of registration and/or recordation of exclusive assignments for those works, plaintiffs lack standing to claim infringement. 17 U.S.C. §§ 205(d), 411, 412 (1982); *Swarovski America Ltd. v. Silver Deer, Ltd.*, 537 F. Supp. 1201 (D. Colo. 1982) (right must be exclusive); *Ruskin v. Sunrise Management, Inc.*, 506 F. Supp. 1284 (D. Colo. 1981).

Plaintiffs Have Not Been Injured

Plaintiffs allege that they have been injured as a result of Irwin's activities. In support of this claim, plaintiffs provide a number of facts and dollar figures concerning closed circuit television and cable licensing agreements. Irwin has been seeking this information since last January when it made its initial discovery request. Plaintiffs have steadfastly refused to produce any of this information. To allow plaintiffs to produce it now, when it suits their purpose, is inappropriate and inequitable. Moreover, Irwin has had no opportunity to review the underlying material or seek additional discovery to ascertain its veracity or its

significance. Inasmuch as plaintiffs claim statutory damages, it is difficult to understand the relevancy of this information. Nonetheless, plaintiffs raise it, yet have denied Irwin an opportunity to review the information during discovery.

In addition, plaintiffs incorrectly state that Irwin discontinued its subscription to a cable movie channel as a result of installing videodisc players. In reality, only about half of the villas carried the movie channel. Moreover, Irwin continued the movie channel for at least a year after installing videodisc players. Irwin finally discontinued the movie channel subscription because its customers were not using it both before and after the videodisc players were installed. Usage was so low prior to installation of the videodisc equipment, that no drop off was measurable after installation. *Irwin Decl.* ¶ 10. Contrary to plaintiffs' contention, the movie channel was not "replaced" by the videodisc players. *Irwin Decl.* ¶ 10. This issue of alleged injury, however, is unimportant to Irwin's cross motion, for if Irwin is not violating the law, then plaintiffs' alleged injuries are the result of healthy competition, not infringement.

Plaintiffs' Licensing Agreements

Plaintiffs also contend that their license agreements with RCA do not authorize public performance. Here again, Irwin has sought these license agreements since January 1985, but plaintiffs have refused to produce them. To rely on the contents of those license agreements now to support their motion is unfair and should not be tolerated. Moreover, a review of those complete agreements is warranted in light of plaintiffs' reliance upon them.

Irwin Acted in Good Faith

Finally, there remains a factual issue about whether Irwin acted in good faith. Plaintiffs argued that Irwin "ignored" plaintiffs' protest letter. To the contrary, Irwin

responded promptly to that letter in a number of ways. First, it responded directly to counsel for plaintiffs explaining the actual videodisc rentals and correcting certain misperceptions expressed in the letter of plaintiffs' counsel. Exhibit 7. Second, Irwin directly sent letters to each of the movie studios requesting that they come to La Mancha to discuss this matter with Irwin. Exhibit 8. One movie studio responded to these requests and Irwin followed up with that studio. Exhibit 9. As a result, Irwin's intent is a quintessential issue of fact and, hence, one ill-suited for resolution on a motion for summary judgment. Inasmuch as this issue in large part will determine what, if any, damages are awarded, it is an issue that must be resolved.

Moreover, the record contains no evidence that Irwin's activities constitute willful infringement. In order to establish willful infringement, two elements are essential. First, the right at issue must be clearly defined. Second, the alleged infringer must be found to have intended to violate that right or to have done so without ground for believing his conduct was lawful. *United States v. Heilman*, 614 F.2d 1133, 1138 (7th Cir.), cert. denied, 447 U.S. 922 (1980); *United States v. Wise*, 550 F.2d 1180, 1194 (9th Cir.), cert. denied, 434 U.S. 929 (1977). Neither element can be resolved against Irwin on this record.

This district court in *Universal City Studios, Inc. v. Sony Corp. of America*, 480 F.Supp. 429, 460, (C.D. Ca. 1979), held that willful infringement could not be found where the right asserted by plaintiffs and the legal issue are novel: "[D]efendants here could not know what copyright law required. Before this lawsuit, that issue had not been determined." The Ninth Circuit recognized that this uncertainty may affect the remedy available for infringement and may require a reduction or remission of statutory damages. *Sony Corp. of America v. Universal City Studios, Inc.*, 659 F.2d 963, 975 (9th Cir. 1981), rev'd, on other grounds, 464 U.S. 417 (1984).

Irwin believes that its activities are perfectly lawful and beyond the scope of plaintiffs' copyrights. The issue of public performance in the context of the factual setting of this case is one of first impression. The two cases principally relied upon by plaintiffs, *Redd Horne* and *Aveco*, were not even decided when plaintiffs brought this suit. Moreover, *Redd Horne* and *Aveco* do not resolve the public performance issue as it applies to Irwin. Irwin's position is reasonable and is supported by a substantial body of precedent. Merely because plaintiffs challenge Irwin's position does not render Irwin's action as bad faith. It would violate all notions of due process to resolve the issue of Irwin's intent on this record. In fact, all of the evidence of record relating to the issues exonerates Irwin. In view of the novelty of the public performance issue raised in this case, whether Irwin acted willfully at least presents a genuine issue of material fact, even if infringement is found.

These factual contentions render plaintiffs' motion for summary judgment defective. Nonetheless, ignoring these factual inaccuracies and disputes, and adopting plaintiffs' facts, Irwin still should prevail. As a result, these disputes do not adversely effect Irwin's cross-motion.

B. Irwin's Affirmative Defense of Misuse Raises Genuine Issues of Material Fact That Cannot Be Resolved Because Plaintiffs Have Prevented Development of an Adequate Record

Irwin has asserted the affirmative defense of misuse of plaintiffs' copyrights. If Irwin prevails on this claim, then plaintiffs' copyrights will be unenforceable. Irwin raises three basic factual contentions as the basis for this misuse claim: (1) plaintiffs have misused their copyrights by inserting notices on the videodiscs and tapes that state the viewing of the video is restricted to "home use;" (2) plaintiffs have filed this action and similar actions to prevent the development of a rental market in violation of

the antitrust laws; and (3) plaintiffs restricted their licensed distributors from selling to businesses that rent videodiscs and tapes in an attempt to perpetrate its antitrust scheme. As a result of plaintiffs' failure to produce documents in response to Irwin's document requests, these issues are not ripe for summary judgment.

Plaintiffs have clearly misused their copyrights by attempting to restrict the viewing of videotapes to "home use." More specifically, the notices on these videodiscs and tapes include strong language admonishing the viewer that only "home viewing" is permissible, that criminal and civil liability may be brought for non-home viewing. To support their threats, an FBI symbol is included on the warning. Exhibit 12.

The viewing of videos, however, is limited to private, not home, viewing. In enacting the copyright law, Congress noted that there would be circumstances of private viewing of motion pictures outside of the home. Specifically, Congress noted that in such "semi-public" places, such as clubs, lodges, factories, summer camps, and schools, the viewing of movies in the public areas of these facilities would be considered public performances only if viewed by "a substantial number of persons outside of a normal circle of a family and its social acquaintances. . ." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 64, reprinted in 1976 U.S. Code Cong. & Ad. News 5659, 5677-78. Similarly, Congress recognized that meetings of business and governmental personnel would not be considered "public." *Id.* Plaintiffs themselves recognize in their supporting memoranda that a private performance can occur in such "semi-public" places outside of the home. *Plaintiffs' Brief*, at 15.

As a result, plaintiffs' threatening notices are an attempt to broaden their copyright monopoly beyond what the law grants, that is, to restrict all private performances except for home use. This abuse constitutes copyright misuse. The law specifically provides that a copyright holder

cannot enforce its copyrights if it has misused them. As the court in *F.E.L. Publications, Inc. v. Catholic Bishop of Chicago*, 506 F.Supp. 1127, 1136 (N.D. Ill. 1981), cert. denied, 459 U.S. 859 (1982), noted that:

A copyright, like a patent, is a statutory grant of monopoly privileges. Being a statutory grant, the rights are only such as the statute confers, and may be enjoyed only on the terms and conditions which it specifies. And as one eminent authority has pointed out, "The Copyright Act accords to each copyright owner a limited form of monopoly. An attempt to extend the scope of this monopoly will, under certain circumstances, result in violation of the antitrust laws. . . . Apart from the issue of antitrust violation . . . courts will on occasion invoke the equitable doctrine of unclean hands [a concept which includes copyright misuse] as a defense in a copyright infringement action . . . whether [it] is one of law or in equity." The policy underlying the misuse doctrine is designed to prevent a patentee [and a copyright owner as well] from projecting the economic effect of his admittedly valid grant beyond the limits of his legal monopoly. [citations omitted]

Id. at 411.

As a result, even if plaintiffs are correct in their claims against Irwin, their copyrights are still unenforceable because they have misused their copyrights by attempting to expand their legal monopoly beyond what the law allows. The courts have already recognized that restrictions limiting the use of copies to home use are unlawful. *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86 (2d Cir. 1940).

In addition to the overbroad copyright notice, plaintiffs have also attempted to enlarge their copyrights through restrictive license agreements. Specifically, Irwin was in-

formed that plaintiffs restricted their licensed distributors, including RCA, from selling to businesses that rented videotapes and videodiscs. Inasmuch as rental is legal, plaintiffs' attempts to impose these restrictions constitute a misuse of their copyrights and a violation of the antitrust laws. Similarly, plaintiffs have brought this suit and other suits as a further attempt to restrict legitimate rentals of videodiscs and videotapes.⁹

Where a copyright owner has sought to extend the scope of its copyright beyond its proper scope, that misuse may violate the antitrust laws. It has long been established that, in that situation, the copyright owner will be denied relief against infringement.¹⁰ *M. Witmark & Sons v. Jensen*, 80 F.Supp. 843 (D. Minn. 1948); *Buck v. Gallagher*, 36 F. Supp. 405 (D. Wash. 1940), *appeal dismissed*, 315 U.S.

⁹ Plaintiffs have previously asserted that they cannot be found to violate the antitrust laws because they brought the suit in good faith. Plaintiffs' Memorandum in Opposition to Defendants' Motion to Compel. Irwin's misuse claim, however, is not based solely on plaintiffs' institution of this litigation. A copyright holder can violate the antitrust laws in a number of ways and the mere fact that an action may be brought in good faith does not mitigate an antitrust violation. *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 471 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983); *Chest Hill Co. v. Guttman*, 1981-2 Trade Cas. (CCH) ¶ 64,417 (S.D. Ohio 1981).

¹⁰ The Supreme Court in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962) recognized that the principle denying enforcement of a copyright used in violation of the copyright law grew out of patent jurisprudence. *Id.* at 45-46. The court noted also that the statutory monopoly accorded by copyright is limited and attempts to extend it must be confined. *Id.* at 49. The patentee's monopoly: "remains so long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942). Restriction imposed on purchasers of the patented article are illegal attempts to extend the patent monopoly rendering the patent unenforceable. *In re Yarn Processing Patent Validity Litigation*, 541 F.2d 1127, 1130 (5th Cir. 1976).

780 (1942). *Columbia Pictures Corp. v. Coomer*, 99 F.Supp. 481 (E.D. Ky. 1951).

These issues, however, are not ripe for summary decision. Plaintiffs have refused to produce virtually any documents in response to Irwin's document request addressing these issues. These genuine issues prevent plaintiffs from enforcing their copyrights thereby obtaining any summary judgment. These issues, however, are not raised by Irwin's cross-motion. Whether or not plaintiffs have abused their copyrights, the issue of public performance can be resolved. Accordingly, Irwin's cross-motion can be granted notwithstanding these factual issues.

V.

RESPONDENTS' ATTEMPT TO OBTAIN SUMMARY JUDGMENT ON IRWIN'S AFFIRMATIVE DEFENSES IS UNFOUNDED

Plaintiffs' attempts to obtain summary judgment on Irwin's first sale affirmative defense and laches affirmative defense is unfounded. As discussed in Argument I, Irwin's first sale doctrine affirmative defense is quite valid. The first sale doctrine ensures that Irwin has the continued right to rent videodiscs. Plaintiffs' attempt to avoid the first sale doctrine is misplaced. Plaintiffs confuse the first sale doctrine with public performance. In essence, plaintiffs are really arguing that the viewing of videos by guests in the private villas of La Mancha is a public performance—this does not render Irwin's first sale defense inoperative.

With regard to the laches argument, plaintiffs are creating a strawman argument. Plaintiffs initially asserted that Irwin's rental activities were unlawful. Inasmuch as plaintiffs have tolerated and endorsed rentals of videotapes and discs for many years, Irwin asserted the defenses of laches and estoppel. Subsequently, however, plaintiffs clarified their position on rental and stated at Mr. Irwin's deposition that Irwin is entitled to rent videodiscs. *Irwin*

Dep. Vol 1, 20/20-21. Accordingly, Irwin indicated at the Rule 9 pretrial conference held on July 31, 1985 that it would not pursue the laches defense. To now argue that the defense is invalid, seeks to have the court order what Irwin has already given.

VI.

CONCLUSION

Under any factual scenario, plaintiffs cannot prevail on their summary judgment motion. There is no support for the remarkable contention that viewing videos in the privacy of a villa rented at La Mancha is a public performance. Plaintiff's claims are contradicted by the law and simple logic. Accordingly, for the reasons provided above, defendants respectfully request that the court deny plaintiffs' Motion for Summary Judgment and enter summary judgment in favor of defendants, dismissing plaintiffs' complaint and awarding costs.

Dated: October 18, 1985

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UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIMS

REPLY MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT AND IN OPPOSITION TO DEFENDANTS' CROSS-MOTION; DECLARATIONS OF STEPHEN A. KROFT, MAREN CHRISTENSEN AND TRACY A. DEVLIN

Hearing date: 12/9/85

Time: 10:00 A.M.

Courtroom No: 23

[Table of Contents omitted in this printing]

INTRODUCTION

Plaintiffs' pending motion for summary judgment is based on the inescapable conclusion that the performances of plaintiffs' motion pictures in La Mancha's guest villas constitute public performances because La Mancha, including its villas, is a place open to the public. Although defendants have attempted to demonstrate that La Mancha

is a "club", not a "hotel," and does not "extensively" advertise, neither these facts, even if true, nor the fact that presumably each of La Mancha's guest villas is limited to use by one set of paying guests at a time, alter the essential fact that La Mancha is a public place. Indeed, since defendants *concede* that La Mancha solicits the patronage of the general public and that any member of the public can stay at La Mancha without restriction for up to three visits (*see* note 1, *infra*), the necessary factual premise for plaintiffs' motion (*i.e.*, that La Mancha is a place open to the public) is undisputed, and accordingly, summary judgment is proper.

Recognizing that there is not genuine issue of material fact on the dispositive "public place" issue, defendants attempt to avoid summary judgment by arguing that La Mancha is more like a vacation home than a mini-movie theater, invoking the first sale doctrine (and a related misuse defense) and arguing that factual issues remain with respect to the ownership of plaintiffs' copyrights, the scope of plaintiffs' licenses to RCA, injury to plaintiffs, and defendants' good faith. However, as demonstrated below, defendants' mini-movie theater, first sale and misuse arguments are incorrect as a matter of law, and defendants' alleged remaining factual issues either are legally immaterial or have been waived by defendants. Accordingly, plaintiffs' summary judgment motion should be granted, and defendants' cross-motion should be denied.

ARGUMENT

I.

THE EXHIBITIONS OF PLAINTIFFS' MOTION PICTURES AT LA MANCHA CONSTITUTE PUBLIC PERFORMANCES

Defendants' Memorandum In Opposition To Plaintiffs' Motion (hereinafter "Defs. Memo") repeatedly concedes that La Mancha, including its guest villas, is open to the

general public. For example, the memorandum states: "Until membership is full, non-members *from the general public* are allowed to stay at La Mancha within certain limits"; "A *member of the general public* . . . can make a reservation at La Mancha without sponsorship from a member. A non-member can also make a reservation through a travel agent"; "Irwin advertises the availability of La Mancha *to the public*" (emphasis added).¹

Despite these concessions, defendants assert that the exhibitions of plaintiffs' motion pictures in this public place somehow do not constitute infringing public performances. This contention is based on a misinterpretation of the statutory definition of "to perform publicly," a misreading of the cases which have construed this definition, a mischaracterization of the nature of defendants' facility and a misapplication of cases involving state law and the Fourth Amendment.

A. The Performances At La Mancha Constitute Infringing Public Performances Regardless Of The Composition Of The Audience Viewing Plaintiffs' Motion Pictures

Defendants first argue that the performances at La Mancha are not public because they presumably occur only in the presence of a few persons at a time. To support this argument, defendants contend that even though the definition of "to perform publicly" contained in Clause (1) of §101 of the Copyright Act is written in the disjunctive, a performance in a place open to the public (which satisfies the first part of this disjunctive definition) cannot be considered a public performance unless it occurs before "a substantial number of persons outside a normal circle of a family and its social acquaintances" (the requirement of the second part of the disjunctive definition). (Defs. Memo pp 12-14). It is difficult to understand the basis for this

¹ Defs. Memo 3/24-25; 4/20-21; 5/1-3.

argument. Not only is it directly contrary to the plain language of the statute, but as plaintiffs' moving papers (hereinafter "Plaintiffs' Memo") demonstrate, it is also inconsistent with both the legislative history and the relevant cases, which clearly state:

"Under the first part of Clause (A) a performance or exhibition would be 'public' if the place where it occurred is 'open to the public', *regardless of the number of persons present at the particular time.*" (emphasis added)

House Revision Part 6 Supplementary Report of the Register of Copyrights on The General Revision of the U.S. Copyright Law: 1965 Revision Bill (Comm. Reprint) at 24; see Plaintiffs' Memo, p. 16, note 11.

"The statute is written in the disjunctive, and thus two categories of places can satisfy the definition of 'to perform a work publicly' . . . *Clearly, if a place is public, the size and composition of the audience will be determinative.*" (emphasis added) *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 158 (3d Cir. 1984) (hereinafter "*Redd Hornee*")

In sum, since La Mancha, including its guest villas, is a place open to the public, the performances of plaintiffs' motion pictures in La Mancha's guest villas constitute public performances under the first part of the disjunctive definition of Clause (1) regardless of the fact that such performances presumably occur only in the presence of no more than a few persons.²

² Defendants contend, without citation to any authority, that this conclusion is erroneous, arguing by analogy that a performance which occurs in a public bar or theater rented for an evening by a family and its social acquaintances would be a private, not a public, performance (Defs memo 13/24-27). This contention is erroneous. For, it is

B. La Mancha, Including Its Guest Villas, Is A Place Open To The Public

Defendants next argue that even if their strained interpretation of the statutory definition of "to perform" publicly is incorrect, the performances at La Mancha are not public because La Mancha, including its guest villas, is not "a place open to the public" within the meaning of the statute. Defendants make a number of contentions to support this argument, each of which is addressed below:

1. Defendants first contend that La Mancha cannot be deemed a place open to the public because it is not similar to a "mini-movie theater." In support of this contention, defendants argue that liability was imposed in *Redd Horne, supra*, and *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 612 F.Supp. 315 (M.D. Pa. 1985) (hereinafter "*Aveco*") only because defendants' facilities in those cases were found to be similar to mini-movie theaters (Defs. Memo pp. 14-17). In making this argument, defendants misread *Redd Horne* and *Aveco*. In making this argument, defendants misread *Redd Horne* and *Aveco*. The courts held that the performances in those cases were public solely because defendants' facilities were "places open to the public," *not* because they were similar to mini-movie theaters. Although the courts analogized the defendants' businesses in those cases to mini-movie theaters, they did so merely to *illustrate* the public nature of defendants' facilities. By doing so, however, the courts clearly did not make similarity to a movie theater the *sine qua non* for

established that the mere fact that individuals can arrange private viewings of motion pictures in a public facility (such as a bar or theater) does not alter the facts that the facility is a place open to the public and that "private" viewings therein therefore constitute public performances. *Redd Horne, supra*, 749 F.2d at 159; *Aveco, supra*, 612 F.Supp. at 319.

finding a place open to the public within the meaning of the statute.³

2. Defendants next contend that La Mancha, including its guest villas, cannot be considered a public place because the individual villas are no different than private vacation homes, i.e., "homes away from home," and such a private vacation home cannot be considered a public place (Defs. Memo 14/9-10, 17/13-15, 19/11-14). This contention is erroneous. First, as *Red Horne* emphasized, the relevant "place" within the meaning of §101 is the entire La Mancha facility, not each individual villa. See 749 f.2d at 159. Were the law otherwise, nightly viewings in private restaurant dining rooms or in private gaming rooms in Las Vegas casinos of motion pictures rented out by the restaurants or casinos would be deemed private, not public, because the viewings take place "in private." *Red Horne* teaches that this result would be contrary to the statute. 749 F.2d at 159 ("Simply because the cassettes can be viewed in private does not mitigate the essential fact that [the restaurant or casino] is unquestionably open to the 'public.'") Similarly, the result sought herein by defendants would also be contrary to the statute because it is beyond dispute that the entire La Mancha facility, including all of its guest villas, is open to the public. (See note 1 & accompanying text, *supra*; Plaintiffs' Memo, 7, 16).⁴

³ Indeed, despite their attempt to argue to the contrary, defendants ultimately concede that their mini-movie theater interpretation of *Redd Horne* and *Aveco* is not well taken. For, after devoting nearly four pages to the argument (Defs. memo pp. 14-17), defendants state: "The courts in *Redd Horne* and *Aveco* use the dichotomy of theater-like versus home-like use because these are the two extreme examples of public and private use. Performance at a movie theater is the essence of public performance. Similarly, home viewing is undoubtedly private. These extremes, however, do not define the limits of public and private viewing. Performing video movies at a bar open to the public is not like a theater but would be considered a public performance." (emphasis added) Defs. memo 17/21-28).

⁴ Defendants contend that if the entire La Mancha facility, like the

Defendants' attempted analogy to vacation homes is also inapt for several other reasons. Unlike La Mancha's villas, which are rented by the night (usually with a 2 night minimum), vacation homes are either owned by their occupants or are leased for a long period of time. Hence, vacation homes are not rented and re-rented to a constant turnover of new occupants every few days as are La Mancha's villas. These fundamental differences clearly justify treating La Mancha's guest villas differently than vacation homes for purposes of the public performance provisions of the Copyright Act. As the Court stated in *Aveco*, "A person's [vacation] home is not rented out in two hour [or two day] shifts, [thereby] afford[ing] separate groups of persons the opportunity [among other things] to see a variety of motion pictures. Nickelodeon's [and La Mancha's] rooms are." 612 F.Supp. at 320.

Defendants also attempt to make much of the fact that unlike the viewing rooms in *Aveco*, La Mancha's villas are complete living accommodations, "with living rooms, dining rooms, kitchens and separate bedrooms" (Defs. Memo

stores in *Redd Horne* and *Aveco*, is deemed a public place, then whenever a building such as an apartment building or office building has any common areas open to the public, the entire building, including each individual apartment and private office suite, would likewise necessarily be deemed a public place, thereby converting all private viewings in those apartments and office suites into infringing public performances (Defs. Memo 18/16-19/2). This "parade of horrors" misconstrues plaintiffs' argument. Plaintiffs do not contend, nor did *Redd Horne* and *Aveco* hold, that merely because a building has some common areas open to the public the entire building, and each individual unit therein, must be deemed a public place. It is only when the entire facility, including each individual unit contained therein, is, like La Mancha, regularly open to the public that the facility and all of its individual units must be considered public. Indeed, defendants themselves appear to recognize the analytical validity of this approach, stating that "the issue is not whether there [is] any common area open to the public, but whether the entire facility is . . . considered a 'public place'" and that this was "the key factor in the *Redd Horne* and *Aveco* decisions." (emphasis added) (Defs. Memo 19/6-8).

17/12-15). While this is true, it is irrelevant. The only issue before the Court is whether La Mancha, including its guest villas, is a place open to the public, not whether La Mancha's public accommodations contain some of the comforts of home.

3. Defendants next contend that La Mancha is a "private club" and that this alleged fact establishes that La Mancha is not a place open to the public. Defendants are mistaken. Even though La Mancha apparently has members, and in that sense is contended by defendants to be a "club," this fact is irrelevant to a determination of whether the performances at La Mancha are public. For, it is well established that performances in alleged private clubs are nonetheless public if use of the club is open to the general public. See *Lerner v. Club Wander In, Inc.*, 174 F.Supp. 731, 732 (D. Mass. 1959). In other words, where, as here, a performance is alleged to be public under the first prong of the disjunctive definition in Clause (1), the issue is not whether it is proper to attach the label "private club" to defendants' business establishment, but rather whether the business establishment is also open to members of the general public. If it is open to use by the public, it must be considered a public place for purposes of the first prong of Clause (1) regardless of whether it also has a "membership roster."

Here, as indicated above and in plaintiffs' moving papers (note 1, *supra*; Plaintiffs Memo, pp. 7, 16), La Mancha is not restricted to use by "members only." Rather, it actively solicits the patronage of, and is indisputably open to, any member of the public for at least three visits. Accordingly, the performances at La Mancha must be deemed public regardless of the "private club" label which defendants have attached to their business venture.

4. Finally, defendants contend that even if La Mancha were licensed to operate as a hotel rather than a private club, state law and Fourth Amendment concepts of privacy

applicable to hotel rooms establish that La Mancha's guest villas constitute private, rather than public, places. This contention lacks merit for several reasons. First, as noted above, the relevant "place" within the meaning of the Copyright Act is the entire La Mancha facility, not each individual villa. Thus, the degree of privacy afforded to the occupants of individual villas is irrelevant to determining whether La Mancha is a place open to the public.

Second, neither state law nor Fourth Amendment principles govern the interpretation of the Copyright Act. As to state law, it has been repeatedly held that such laws are irrelevant to a determination of whether a place is open to the public for purposes of the public performance provisions of the Copyright Act. *Lerner v. Schectman*, 228 F.Supp. 354, 357 (D. Minn. 1964) ("substantive applications of the Copyright Act are not based on a status created by local law"). Accord: *Broadcast Music, Inc. v. Walters*, 181 U.S.P.Q. 327, 328 (N.D. Okla. 1973). And, while the issue has never been addressed directly in the Fourth Amendment context, it seems obvious that the Fourth Amendment does not, and was never intended to, limit rights under statutes, such as the Copyright Act, legitimately enacted by Congress pursuant to other provisions of the Constitution. Indeed, in *Stoner v. California*, 376 U.S. 483, 84 S.Ct. 889 (1964), a case holding the Fourth Amendment applicable to hotel rooms, the supreme Court warned that it is inappropriate to confuse concepts of privacy embraced within the Fourth Amendment with the application of other legitimate laws. 376 U.S. at 488. *C.F. Lerner v. Schectman*, *supra*, 228 F.Supp. at 358 (cases interpreting federal tax law inapplicable to interpretation of public performance provisions of Copyright Act because "the philosophy underlying these tax decisions is not analogous to the issue joined here under the Copyright Act").

Third, even if application of state law and Fourth Amendment principles were appropriate in the copyright context, these principles would reinforce the conclusion

that the performances at La Mancha are public. For, under state law hotels are considered "places of public accommodation." *Isbister v. Boys Club of Santa Cruz, Inc.*, ___ Cal.3d ___ 85 D.A.R. 3516 (*Los Angeles Daily Journal*, October 21, 1985) (quoting *Marina Point, Ltd. v. Wolfson*, 30 Cal.3d 721, 731, 180 Cal.Rptr. 496 (1982)).⁵ Moreover, guests of hotels are not considered tenants (such as tenants of rented vacation homes); "they are mere licensees and the control of the rooms . . . remains in the proprietor." *People v. Vaughn*, 65 C.A.2d Supp. 844, 852 (1944). Accord: *Sloan v. Court Hotel*, 72 C.A.2d 308, 314, 164 P.2d 516 (1945). Similarly, the Fourth Amendment cases cited by defendants recognize that rented hotel rooms cannot be considered "private" for all purposes even though they are entitled to the protection of the Fourth Amendment. See e.g. *United States v. Agapito*, 620 F.2d 324, 331-32 (2d Cir. 1980). Thus, defendants' suggestion that La Mancha's villas lose their character as public places within the control of defendants when they are rented to La Mancha's guests is contrary to state law and unsupported by cases interpreting the Fourth Amendment.

II.

THE FIRST SALE DOCTRINE DOES NOT EXCUSE DEFENDANTS' INFRINGING CONDUCT

Despite the fact that the performances in La Mancha's guest villas occur in a place open to the public, and hence constitute unauthorized public performances, defendants contend that *their* activities are nonetheless protected by

⁵ Indeed, *Isbister* establishes that even private clubs are deemed "places of public accommodation" if, like La Mancha, they are open to broad segments of the public. Even prior to *Isbister*, it was established that private clubs could be considered hotels if the dominant characteristics of the premises are, like La Mancha's, those of a hotel. *Erwin v. City of San Diego*, 112 C.A.2d 213, 216-17, 246 P.2d 105 (1952).

the first sale doctrine (Defs. Memo pp. 7-11). More particularly, defendants argue that because they lawfully acquired their discs of plaintiffs' motion pictures from RCA, they are free under the provisions of 17 U.S.C. §109(a) to rent them without liability even for the purpose of unauthorized public performances. This argument is completely devoid of merit.

As plaintiffs have previously explained (Plaintiffs' memo, pp. 24-26), under the first sale doctrine, a copyright owner's sale of a copy of his work divests him *only* of his right under 17 U.S.C. §106(3) to control the future *transfer* (i.e., distribution) of that particular copy. It does not, however, divest him of any of the other exclusive rights in the work (including the right to authorize public performances) conferred upon him by the other four subdivisions of §106. *Redd Horne*, 749 F.2d at 158, 159-60; *Aveco*, 612 F.Supp. at 319. Conversely, lawful acquisition of such a copy does not convey to the purchaser any of the rights thus reserved by the copyright owner. *Aveco*, 612 F.Supp. at 312; 17 U.S.C. §202.⁶

Accordingly, although a purchaser of an authorized copy may rent out the copy under §109(a) without violating the copyright owner's §106(3) rights of distribution, he may not, despite defendants' contrary contention, do so in ways that violate any of the other exclusive rights set forth in §106. *Redd Horne*, *supra*, 749 F.2d at 159-60. In particular, as the court in *Aveco* made clear, he may not rent the copy for use in an infringing public performance. *Aveco*, *supra*, 612 F.Supp. at 319 ("We reject the defendants' argument that their activities are protected by the first

⁶ Defendants complain that the grant in §106 of several separate and distinct rights is somehow "inequitable" because it permits the copyright owner to receive a separate royalty for the exploitation of each of these rights. (Defs. memo, 7/17-8/9). However, if defendants are unhappy with this statutory scheme they should address their complaint to the drafters of the law (i.e., to Congress), not to this Court.

sale doctrine. The first sale doctrine gives the Defendants the right to rent the videocassettes they have purchased from the Plaintiffs. It does not, however, give them any of the other rights granted exclusively to the Plaintiffs under §106 including the right to authorize public performances of the movies." The House Report which accompanied the 1976 Copyright Revision Act is equally clear on the matter. There Congress expressly stated:

"Under Section 202, however, the owner of the physical copy or phonorecord cannot reproduce or perform the copyrighted work publicly without the copyright owner's consent." House Report, p. 79

"[A] person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance." House Report, p. 61.

The last quoted portion of the House Report describes defendants' rental activities exactly.⁷ Accordingly, there is no doubt whatever that defendants' activities constitute an infringement and are not protected by the first sale doctrine.⁸

⁷ As defendants observe, when the House Report was written, Congress was well aware of video disc technology and, thus, the above-quoted passage obviously applies to such technology. In view of this unequivocal expression of Congressional intent, defendants are clearly wrong in asserting that "Congress chose not to prohibit or limit in any way the rental of videos". (Defs. Memo 11/8-10).

⁸ None of the cases cited by defendants requires a different conclusion. *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86 (2d Cir. 1940), the principal authority relied upon by defendants, did not even involve application of the Copyright Act. The works there involved were uncopyrightable phonograph records. (c.f., *Goldstein v. California*, 412 U.S. 546, 563-64, 93 S.Ct. 2303 (1973)). Thus, only common law rights were involved in *Whiteman*, and, hence, the statutory first sale doctrine

III.

DEFENDANTS' ALLEGED CONTROVERTED ISSUES OF FACT ARE NOT MATERIAL

It is well established that to defeat a motion for summary judgment the opposing party must show that genuine issues of *material* fact are in dispute. F.R.Civ.p. 56(c). If disputed facts remain, but are not material, they "cannot be held to bar the granting of summary judgment." *British Airways Board v. Boeing Co.*, 585 F.2d 946, 952-3 (9th cir. 1978). Here, although defendants attempt to demonstrate that there are several issues of disputed fact, the following discussion will show either that these alleged issues are immaterial or that defendants have waived the issues.

1. The Alleged Issue Of Whether La Mancha Is A Hotel Open To The Public

Defendants contend that there is a question of fact as to whether La Mancha is a hotel as opposed to a "private club."⁹ As demonstrated above, however, this alleged issue is irrelevant to a determination of whether the performances at La Mancha constitute public performances. For, despite the "private club" label attached to La Mancha by defendants, it is nonetheless undisputed that La Mancha, including its guest villas, is open to the public. (See note

was not even an issue. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) and *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F.Supp. 881 (E.D. Pa. 1964) merely involved the right to resell lawfully acquired copies, not the alleged right to rent the copies for unauthorized public performances; accordingly, these latter two cases are also inapplicable here.

⁹ Defendants' statement that the advertisements contain such restrictions (Defs. Memo 5/3-4) is simply in error. This fact is not genuinely in dispute because the actual public advertisements (as opposed to La Mancha's brochures, e.g., Defendants' Exh. 4) which disclose the lack of any such restrictions are themselves in evidence (see Ptf. Exhs. 2, 14-17; Defs. Exh. 11).

1, *supra*; Ptf's. memo, pp. 7, 16). Accordingly, the performances at La Mancha occur at "a place open to the public" and, hence, constitute public performances within the first prong of the statutory definition regardless of whether La Mancha could properly be characterized as a "private club." (See §I.B.3., *supra*).

Defendants nonetheless contend that if La Mancha is considered a private club, it necessarily follows that it is a "semi-public" place in which performances can be deemed public only if they occur before a substantial number of persons outside of a normal circle of a family and its acquaintances. In other words, defendants argue that a performance in a "private club" can be deemed public only if the composition of the audience satisfies the criteria of the *second prong* of the definition in Clause (1). (Defs. memo, pp. 22-23). Defendants are mistaken. As the decision in *Lerner v. Club Wander In, Inc.*, *supra*, makes clear, if an alleged private club is, like La Mancha, open to both "members" and the general public, it is indisputably a place open to the public. And, as previously demonstrated, it is well-established that performances in such a public place constitute public performances regardless of the composition of the audience. *Redd Horne, supra*; *Aveco, supra*.

2. The Alleged Issue Of The "Extensiveness" of La Mancha's Advertising

The uncontradicted affidavits submitted by plaintiffs, as well as Irwin's own testimony, establish beyond any doubt that La Mancha is a place open to the public. (See Beattie, Porter and Smith Decls; Irwin Depo. 35/18-36/20, 48/2-11, 48/27-49/11; Exhs. 2, 9-11, 14-16, 21, 52). Defendants' advertisements demonstrably underscore this fact. For, as discussed in Plaintiffs' Memo (p. 16), the advertisements contain *no restrictions of any kind* on the ability of members of the public to stay in La Mancha's guest villas.¹⁰

¹⁰ Defendants' statement that the advertisements contain such re-

Defendants nonetheless contend that there is an issue of fact concerning whether La Mancha "extensively" advertises. (Defs. Memo p. 23). However, the "extensiveness" of defendants' advertising clearly is not germane to the question of whether La Mancha is a place open to the public. It is not the number of such advertisements which have been published by defendants, but their content, which reinforces the unavoidable conclusion that La Mancha is open to the public. Accordingly, the "extensiveness" of defendants' advertising is clearly not a *material* fact sufficient to defeat plaintiffs' motion for summary judgment.

3. The Alleged Copyright Ownership Issue

Defendants contend that factual issues exist as to plaintiffs' ownership of 27 of the 65 copyrights at issue because the copyright certificates and other documents of ownership of rights in these motion pictures were allegedly not produced by plaintiffs until this motion was filed. They further argue that plaintiffs have failed to produce proof of the exclusive right to authorize public performances of 16 of these 27 motion pictures (Defs. memo 24/7-26). Defendants do not, however—nor can they—contend that there is any issue of fact concerning plaintiffs' copyright ownership of the other 38 motion pictures. (See *Defendants' Statement of Uncontroverted Facts and Conclusions of Law* ¶21). These 38 copyrights alone are clearly sufficient to support the entry of an order for summary judgment and an award of statutory damages and a permanent injunction pursuant thereto.

Furthermore, except for defects which might possibly appear on the fact of plaintiffs' ownership documents (see note 13, *infra*), defendants have waived their argument

strictions (Defs. memo 5/3-4) is simply in error. This fact is not genuinely in dispute because the actual public advertisements (as opposed to La Mancha's brochures, e.g., Defendants' Exh. 4) which disclose the lack of any such restrictions are themselves in evidence (see Ptf's. Exhs. 2, 14-17; Defs. Exh. 11).

concerning plaintiffs' ownership of the remaining 27 motion pictures. Thus, in a letter dated August 5, 1985, defendants' counsel *agreed* to wait until the filing of plaintiffs' summary judgment motion to receive any ownership documents which had not been previously produced (Second Kroft Decl. ¶4 and Exh. 56 thereto).¹¹ Plaintiffs did what was agreed to, and thus defendants are now in no position to complain that they did not receive these documents until plaintiffs filed their motion. Moreover, at the September 18, 1985 hearing in this matter defendants indicated that upon receiving these ownership papers they would *not* challenge plaintiffs' copyright ownership:

"THE COURT: And a subsidiary issue to that is whether or not the plaintiffs have copyrights on all those films.

"You don't seriously question that they do, do you?

"MR. KING: *My only problem* is, your Honor, I have not been shown ownership papers for all of them." (emphasis added)¹²

Defendants now have the ownership papers with respect to the 27 [or 15—see note 11, *supra*] motion pictures to which defendants' counsel made reference and, accordingly, there is no longer an issue with respect to such ownership.¹³

¹¹ At that time, defendants were complaining that they had received incomplete ownership documents for only 15 of such motion pictures. (Second Kroft decl. ¶3 & Exh. 55 thereto). Defendants have not explained how the number has now swollen to 27.

¹² Reporter's Transcript of Proceedings, September 18, 1985 (hereinafter "R.T."), p. 5 (lines 10-16).

¹³ Nonetheless, plaintiffs acknowledge that they have not timely produced ownership documents for 3 of the motion pictures at issue. These pictures are: "The Lady Sings The Blues" (Claim 27); "Hamlet" (Claim 68); "Movie, Movie" (Claim 70). Nor have plaintiffs presented proof

Plaintiffs do not mean to suggest that defendants waived their right to demonstrate that the documents of ownership of these 27 [or 15] motion pictures are *on their face* inadequate. However, defendants have made no such showing.¹⁴ Indeed, they have given no explanation whatsoever for their claim that plaintiffs' ownership documents are defective for the 16 motion pictures in this group which are listed on Exhibit "B" of defendants' Statement of Genuine Issues.¹⁵

4. The Alleged Issue Of Plaintiffs' Injury

Defendants contend that there is a factual issue as to whether plaintiffs have been injured by defendants' activities and contend further that summary judgment cannot be granted because defendants have not had full discovery on this issue. These contentions lack merit.

that the documents of copyright transfer for 5 motion pictures which were not originally registered in plaintiffs' names have been recorded in the Copyright Office as required by 17 U.S.C. §205(d). (*But see Meta-Film Associates, Inc. v. MCA INC.*, 586 F.Supp. 1346, 1350-52 (C.D. Cal. 1984).) These pictures are "Farewell, My Lovely" (Claim 10), "An American Werewolf In London" (Claim 51), "Endless Love" (Claim 52), "the Great Muppet Caper" (Claim 53) and "The Jazz Singer" (Claim 54). Accordingly, in order to avoid the necessity of dealing with unnecessary and peripheral issues on this motion should plaintiffs' motion be granted, plaintiffs' claims for infringement of these eight motion pictures will be deemed withdrawn.

¹⁴ Although defendants vaguely suggest that they may wish "to seek additional discovery" with respect to plaintiffs' ownership of these 27 [or 15] motion pictures, the good faith of this suggestion is suspect in view of the facts that defendants to not indicate what they expect to discover and, indeed, have conducted no such discovery during the 6 month period in which they have had the ownership documents for the other 38 motion pictures in issue. (Second Kroft Decl. ¶3). See *Contemporary Mission, Inc. v. U.S. Postal Service*, 648 F.2d 97, 107 (2d Cir. 1981) (a party "cannot defeat a motion for summary judgment by merely . . . amplifying [its contentions only with speculation about what discovery might uncover.]")

¹⁵ Eight of this group of 16, however, will be deemed withdrawn if plaintiffs' motion is granted. (See note 13, *supra*).

It is true, as defendants observe, that plaintiffs' moving papers summarize to some extent certain historical facts concerning plaintiffs' hotel licensing activities. These facts are presented for background purposes only, and not for the purpose of proving any damages as a necessary part of plaintiffs' case. Although plaintiffs *have* been damaged by defendants' infringing conduct, proof of this fact is unnecessary because on September 18, 1985, in open Court, plaintiffs elected pursuant to 17 U.S.C. §504(c) to recover statutory damages instead of actual damages. (R.T. 4/1-8, 10/5-13). And, for purposes of this motion only, plaintiffs are willing to accept an award of such damages in the minimum amount (*i.e.*, \$250) for each infringement alleged. Plaintiffs have the absolute statutory right to make this election and, accordingly, the question of whether plaintiffs have suffered any damages from defendants' activities is simply not an issue in this case. See *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1335 (9th Cir. 1984) ("statutory damages may be elected whether or not there is adequate evidence of the actual damages suffered by plaintiff").¹⁶

Defendants themselves concede that in view of plaintiffs' election to recover statutory damages, the question of whether plaintiffs have been damaged is irrelevant. (Defs. Memo 25/11-13). Indeed, when plaintiffs elected statutory damages, defendants withdrew their request for discovery on this issue. (Second Kroft Decl. ¶s 5-6; R.T. 10/5-13). Thus, not only is the question of plaintiffs' damages *legally* irrelevant to the issues presented by plaintiffs' pending motion, but defendants are barred by their own concessions from now raising, or seeking discovery on, the question in an attempt to defeat the motion.

¹⁶ Although the *extent* of plaintiffs' damages could, under certain circumstances, conceivably be material to the amount of statutory damages awarded by the Court between the statutory minimum (\$250) and maximum (\$10,000), the amount of such statutory damages is not an issue on this motion since, as noted above, plaintiffs have agreed for purposes of the motion to accept *minimum* statutory damages.

5. The Alleged Issue Of The Scope Of Plaintiffs' Agreements With RCA

Defendants contend that there is a disputed factual issue as to whether plaintiffs' license agreements with RCA authorize public performances of plaintiffs' motion pictures by means of the discs manufactured by RCA. This contention is based on pure speculation.¹⁷ Defendants have presented no evidence to support this contention, and indeed, the uncontroverted declarations presented by plaintiffs are directly to the contrary.

Defendants complain that they have never received copies of the RCA license agreements from plaintiffs, and from this fact argue that plaintiffs' motion should be denied to permit defendants to conduct discovery on this issue (Defs. Memo, p. 26). This argument is disingenuous.

Although this action was filed on April 25, 1983, defendants have never attempted during this 2-1/2 year period to subpoena the license agreements from RCA. Moreover, on September 18, 1985, nearly *two months* ago, plaintiffs agreed to produce copies of all relevant portions of these agreements as soon as the parties agreed on the language of an appropriate protective order (see Christensen Decl.).¹⁸ Indeed, a suggested protective order had been sent to defendants the previous week to expedite this pro-

¹⁷ As noted above (note 14, *supra*), such speculation is insufficient to defeat a summary judgment motion. *Contemporary Mission, Inc. v. U.S. Postal Service*, *supra*; *Childers v. High Society magazine, Inc.*, 557 F.Supp. 978, 985 (S.D. N.Y. 1983) (summary judgment granted despite defendants' speculative contention that a factual dispute existed as to the scope of a written transfer of copyright).

¹⁸ These agreements are highly confidential. There is no reason whatever to require plaintiffs to produce to defendants financial terms and other portions of these sensitive documents which are unrelated to the scope of the rights granted to RCA. Indeed, the counsel's knowledge *no individual plaintiff* has ever seen the license agreements which the other plaintiffs have with RCA.

duction (*Id.*). Although defendants' counsel discussed revisions to this proposed order with plaintiffs' counsel until October 4, 1985, no agreement was reached. (*Id.*). Thereafter, defendants ceased all communications on the subject (*Id.*), choosing instead to make a "lack of discovery" argument in opposition to plaintiffs' motion.

Despite this tactical posturing by defendants, plaintiffs remain ready and willing to produce all relevant portions of these agreements within 24 hours of the entry of an appropriate protective order. (*See* Christensen Decl.). If the parties fail to agree on such an order, plaintiffs will have the documents available at the hearing on this motion. These documents confirm beyond doubt that, as plaintiffs' declarations already establish, the RCA licenses do *not* authorize public performances by means of the discs manufactured by RCA. Accordingly, defendants' "lack of discovery" argument can form no basis for denying plaintiffs' motion.

6. Defendants' Alleged Good Faith

Defendants contend that there is a factual issue as to whether they acted in "good faith", or willfully, in infringing plaintiffs' copyrights (Defs. Memo, pp. 26-27), and that this issue precludes entry of summary judgment. This contention is erroneous because the issue of defendants' good faith or willfulness is simply not material to the pending motion.

It is well established that a defendants' innocent intent is no defense to a copyright infringement action. 3 *Nimmer On Copyright* §13.08 at 13-136. *Accord: Universal City Studios, Inc. v. Sony Corporation of America*, 659 F.2d 963, 975 (9th Cir. 1981), rev'd on oth. grds. 104 S.Ct. 777 (1984). ("A copyright defendant's 'innocence' does not absolve him of liability; it only affects the remedies available."). Accordingly, defendants' alleged good faith is clearly not material to a finding of liability.

Nor, despite defendants' contrary contention (Defs. memo 26/18-19), are the issues of defendants' willfulness or good faith material to the amount of statutory damages to be awarded on the pending motion. Proof of willful infringement may, of course, permit an award of statutory damages above the statutory maximum of \$10,000 (17 U.S.C. §504(c)(2)). However, plaintiffs make no claim of willfulness in connection with this motion. To the contrary, for purposes of this motion only, plaintiffs have agreed to accept an award of minimum statutory damages (*i.e.*, \$250 per infringement) for each infringement at issue, thereby dispensing with the issue of willfulness on this motion. (*see* note 16, *supra*). Similarly, although proof of defendants' good faith may occasionally be germane in fixing the amount of statutory damages to be awarded between the statutory maximum and minimum, this issue is also obviated here by plaintiffs' election to accept the statutory *minimum* in connection with this motion.

Finally, if defendants are contending that proof of good faith would entitle them under 17 U.S.C. §504(c)(2) to a reduction in the statutory minimum from \$250 to \$100, they are mistaken. Section 504(c)(2) does not permit such a reduction upon a mere showing of "good faith". Rather, a reduction is justified only if the infringer '*had no reason to believe* that his or her acts constituted an infringement of copyright.' Here, as explained in Plaintiffs' Memo (p. 29, note 15), upon receiving plaintiffs' October 7, 1982 "cease and desist" letter defendants clearly had "reason to believe" that their activities infringed plaintiffs' copyrights. *Davis v. E.I. DuPont de Nemours & Co.*, 249 F.Supp. 329, 344 (S.D. N.Y. 1966) (receipt of "cease and desist" letter or telegram is sufficient to establish willful infringement). *Accord: Pye v. Mitchell*, 574 F.2d 476, 482 (9th Cir. 1978) (citing *Davis v. E.I. DuPont de Nemours & Co.*, *supra*, with approval). Nonetheless, they thereafter continued to rent copies of plaintiffs' motion pictures to La Mancha's guests (*See* Second Devlin Decl.). Thus, even

if defendants could prove that their contrary opinion was held in good faith, this would be legally insufficient to permit a reduction of minimum statutory damages below \$250 per infringement. Accordingly, defendants' alleged good faith cannot preclude summary judgment in plaintiffs' favor.

IV.

SUMMARY JUDGMENT IS APPROPRIATE ON DEFENDANTS' AFFIRMATIVE DEFENSES

Plaintiffs' Memo demonstrates that plaintiffs are entitled to summary judgment on defendants' two affirmative defenses. As discussed below, nothing in Defendants' Memo alters this conclusion.

A. Defendants' Have Waived Their Laches And Estoppel Defenses

Defendants' Memo states unequivocally that defendants have waived their laches defense Defs. Memo 31/26-32/2). Plaintiffs assume that by this statement defendants also intend to waive their alleged estoppel defense because they have presented no facts or argument in support of an estoppel claim. Given the absence of any such factual support, summary judgment on both the laches and estoppel claims is appropriate.¹⁹

¹⁹ Despite having waived these defenses, defendants nonetheless complain that they should not be held liable because they have invested money in their infringing movie program. (Defs. Memo 7/22-8/9). This investment is neither surprising nor unusual. Infringers often spend money on their infringing enterprise, but in the absence of a showing of laches or estoppel such expenditures neither absolve them of liability nor preclude relief against their illegal activities. See *Home Box Office Inc. v. Pay TV of Greater New York, Inc.*, 467 F.Supp. 525 529-30 (E.D. N.Y. 1979). Accord: *Universal City Studios, Inc. v. Sony Corporation of America*, *supra*, 659 F.2d at 976.

B. Defendants' Alleged Misuse Defense Is Invalid As A Matter Of Law

Defendants contend that their Answer asserts an affirmative defense of copyright misuse based either on alleged impermissible extensions of the scope of plaintiffs' copyrights or on purported violations of the antitrust laws and that this defense cannot be disposed of by summary judgment. (Defs. Memo 28-31). This contention lacks merit for many reasons, each of which is discussed below.

1. The Alleged Misuse Defense Is Merely Another Aspect Of Defendants' "Private Performance" And "First Sale Doctrine" Arguments

Defendants' alleged misuse defense is contained in their Second Affirmative Defense. (See Answer ¶s 14-17). Despite defendants' contrary argument, that defense does *not* plead any antitrust violations. Indeed, no monopolistic, predatory or anticompetitive conduct of any kind is alleged, nor does the defense allege that plaintiffs' alleged conduct has had any effect on competition or has injured or affected any party other than defendants.²⁰ The defense merely contends that the performances at La Mancha constitute non-infringing private performances, that the first sale doctrine permits defendants to rent video discs for such private performances and that therefore plaintiffs' attempts to restrict defendants' rental activities constitute an attempt impermissibly to extend their copyright monopoly to cover private performances. (*Id.*) In sum, the defense is merely another aspect of defendants' arguments that performances at La Mancha do not constitute public

²⁰ This is neither an oversight nor the result of sloppy pleading. For, defendants have filed four antitrust counterclaims which contain detailed allegations of alleged anti-competitive conduct and purported antitrust violations. (See First-Fourth Counterclaims). Defendants' failure to include similar allegations in their Second Affirmative Defense leads inescapably to the conclusion that this defense does not, and was not intended to, embrace any such allegations.

performances and that defendants' activities are protected by the first sale doctrine.

As demonstrated above, however, it is clear that the performances at La Mancha constitute public, not private, performances, and that the first sale doctrine does not protect plaintiffs' activities. (See §§I & II, *supra*). Accordingly, the Second Affirmative Defense is deficient as a matter of law and cannot form the basis for denying plaintiffs' motion.

2. To The Extent That Defendants' Alleged Misuse Defense Attempts To Assert Matters Unrelated to Defendants' Infringing Activities It is Legally Insufficient

Despite the very narrow allegations of the Second Affirmative Defense, defendants appear to contend that the defense alleges that plaintiffs are attempting to extend their copyrights to preclude not only *defendants'* allegedly private performances but also *all* private performances which may occur outside the home (Defs. memo pp. 28-30). Defendants further contend that this purported attempt to extend the reach of plaintiffs' copyrights constitutes a form of unclean hands known as "copyright misuse" and thus precludes plaintiffs from any relief (*Id.*; See Answer 6/4-5). This contention is not well taken.

Even if the "misuse" allegations of the Second Affirmative Defense were as broad as defendants would like, and they could prove those broad allegations, the misuse/unclean hands defense would nonetheless be legally deficient. As noted above, since the performances at La Mancha are not private performances, plaintiffs are clearly not attempting to extend their copyrights to cover any private performance by *defendants*. And, even if plaintiffs were, contrary to fact, somehow attempting to enlarge their copyrights to preclude private performances by unrelated parties at locations other than La Mancha, for the reasons

discussed below this would be insufficient as a matter of law to establish a misuse defense in this case.

It is well established that the misuse/unclean hands doctrine "does not apply to every unconscientious act or inequitable conduct by the plaintiff. It is limited to misconduct connected with the matter in litigation, and does not apply to misconduct which is unconnected with the matter in litigation" (emphasis added). *Bentley v. Tibbals*, 223 Fed. 247, 252 (2d Cir. 1915).²¹ Here, it is clear that any alleged attempt by plaintiffs to preclude private performances outside the home by unrelated third parties is completely unconnected to defendants' conduct. Indeed, as discussed above, the performances by defendants are public, not private, performances. Accordingly, plaintiffs' alleged attempt to control private performances outside the home simply has no connection whatever with the public performances at La Mancha.²² Accordingly, even if defendants could prove their allegations of alleged misuse/unclean

²¹ Accord: *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852, 863 (5th Cir. 1979) ("The maxim of unclean hands is not applied where plaintiff's misconduct is not directly related to the merits of the controversy between the parties but only where the wrongful acts 'in some measure affect the equitable relations between the parties in respect of something brought before the court for adjudication.' The alleged wrongdoing of the plaintiff does not bar relief unless the defendant can show that he has personally been injured by the plaintiff's conduct. (citations omitted)"); *Leo Feist, Inc. v. Young*, 138 F.2d 972, 976 (7th Cir. 1943). See *M. Witmark & Sons v. Jensen*, 80 F.Supp. 843 (D. Minn. 1984) (misuse defense sustained only because music copyright owners extended their copyrights to control *defendants'* allegedly infringing motion picture business).

²² Moreover, were the Court to find that the performances at La Mancha constitute private performances, the misuse defense would be superfluous. For, this action is based entirely on the premise that each performance at La Mancha constitutes an infringing *public* performance, not some type of unlicensed private performance. A finding that these performances are not public would thus make consideration of the misuse defense completely unnecessary.

hands as to third parties, such proof would be insufficient as a matter of law to bar plaintiffs from relief against these defendants.

3. Even If The Second Affirmative Defense Contained Allegations Of Antitrust Violations, It Would Be Insufficient As A Matter of Law

Even if the second Affirmative Defense alleged antitrust violations by plaintiffs, it would be legally insufficient to defeat plaintiffs' motion. For, it is well-established that a plaintiff's alleged violations of the antitrust laws do not excuse infringements of his copyrights. Indeed, for over sixty years the Courts have consistently rejected attempts to interpose antitrust defenses to copyright infringement actions. For example:

"The defendant set forth in his answer a separate defense that the plaintiffs are furthering a monopolistic scheme in violation of Acts of Congress forbidding monopolies and agreements in restraint of trade. Infringement of a copyright is a tort. (citation omitted) The defense alleged is not available to a defendant in an action for infringement of a copyright." *Buck v. Cecere*, 45 F.Supp. 441, 442 (W.D. N.Y. 1942).

"The Sherman Act does not make the party to an interstate monopoly an outlaw. It does not prevent such a party from asserting his rights in the courts. It does not give any person the right to trespass upon the rights of such party, or to deprive him unlawfully of his property. There is no provision in the act divesting the members of combinations in restraint of trade of their property. The illegality of such a combination cannot be tested collaterally. The act itself provides the remedies against the illegal combination and these remedies are exclusive."

M. Witmark & Sons v. Pastime Amusement Co., 298 Fed 470, 480 (E.D. So. Car. 1924), aff'd 2 F.2d 1020 (4th Cir. 1924).

Accord: *Foreign Car Parts, Inc. of New England v. Auto World, Inc.*, 366 F.Supp. 977, 979 (M.D. Pa. 1973); *Harms, Inc. v. Sansom House Enterprises, Inc.*, 162 F.Supp. 129, 135 (E.D. Pa. 1958), aff'd 267 F.2d 494 (3d Cir. 1959); *Society of European Stage Authors & Composers, Inc. v. WCAU Broadcasting Co.*, 35 F.Supp. 460, 461 (E.D. Pa. 1940); *Buck v. Newsreel, Inc.*, 25 F.Supp. 787, 89 (D. Mass. 1938); *Buck v. Hillsgrove Country Club, Inc.*, 17 F.Supp. 643 (D.R.I. 1937); *Vitagraph, Inc. v. Grobaski*, 46 F.2d 813, 814 (W.D. Mich. 1931); *Harms v. Cohen*, 279 Fed. 276, 280-81 (E.D. Pa. 122).²²

The reasoning of the foregoing cases makes a good deal of sense. If the law were otherwise, straightforward copyright infringement actions, any of which, like this case, are capable of summary adjudication, would frequently become complicated antitrust actions, bogged down in years

²² The cases cited by defendants (Defs. Memo, pp. 30-31) do not hold to the contrary. *Buck v. Gallagher*, 36 F.Supp. 405 (D. Wash. 1940) and *Columbia Pictures Corp. v. Coomer*, 99 F.Supp. 481 (E.D. Ky. 1951) were not copyright infringement actions and thus did not address the availability of an antitrust defense in such an action. *M. Witmark & Sons v. Jensen*, 80 F.Supp. 843 (D. Minn. 1948) merely found that plaintiffs had improperly extended, and hence misused, their copyrights and expressly declined "to determine whether antitrust violations alone would deprive plaintiffs of the right to recovery". 80 F.Supp. at 850. And, although the district court in *F.E.L. Publications, Inc. v. Catholic Bishop of Chicago*, 506 F.Supp 1127 (N.D. Ill. 1981) sustained an antitrust defense, in doing so it failed to discuss or even to mention any of the above-cited authorities. Nor, in reversing *F.E.L.* on appeal, did the Seventh Circuit address the legal sufficiency of an alleged antitrust defense. See 214 U.S.P.Q. 409 (7th Cir. 1982). Because the Seventh Circuit found that the defendant had failed to prove an antitrust violation, it was not required to, and hence did not, reach the issue of whether proof of such a violation would have been legally sufficient to constitute a defense to copyright infringement.

of discovery and protracted trial proceedings. Such a possibility, in turn, would discourage copyright owners with legitimate infringement claims, such as plaintiffs here, from pursuing their claims out of fear that to do so would embroil them in the defense of meritless, but nonetheless expensive and time-consuming, antitrust claims. Conversely, if an infringer is required to file any antitrust claims which he may have in an independent action (or, as defendants have done here, in a severable counterclaim), the filing of meritless antitrust claims will be discouraged while at the same time providing an infringer who has a legitimate antitrust claim with an appropriate forum.

Accordingly, to the extent that the Second Affirmative Defense purportedly rests on alleged violations of the antitrust laws, it is insufficient as a matter of law and should be summarily rejected.

V.

CONCLUSION

For all of the foregoing reasons, as well as the reasons set forth in Plaintiffs' Memo, plaintiffs' motion for summary judgment should be granted, and defendants' cross-motion should be denied.

DATED: November 11, 1985.

Respectfully submitted,
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UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., tc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIMS

PLAINTIFFS' STATEMENT BE GENUINE ISSUES OF MATERIAL FACT IN OPPOSITION TO DEFENDANTS' CROSS-MOTION FOR SUMMARY JUDGMENT (Local Rule 7.14.2)

Hearing Date: 12/9/85

Time: 10:00 A.M.

Courtroom No: 23

Pursuant to Local Rule 7.14.2, plaintiffs submit the following statement concerning genuine issues of material fact in opposition to defendants' cross-motion for summary judgment.

Plaintiffs contend that there are *no* triable issues of material fact regarding defendants' claim that the performances at La Mancha of plaintiffs' motion pictures are not public performances. Plaintiffs further contend that such performances are public performances as a matter of law because the undisputed facts establish that the performances occur in a place open to the public. Plaintiffs

contend that issues of fact exist concerning defendants' contentions that La Mancha allegedly (a) is not a hotel and (b) is a private club, but that these issues are *not material* to a resolution of this case. (See Plaintiffs' Reply Memorandum of Points and Authorities, §§ I.B. & III.1.).¹ Since these facts are not material to plaintiffs' contention that the performances at La Mancha constitute public performances, summary judgment in plaintiffs' favor is proper.

DATED: November 11, 1985

Respectfully submitted,
ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
MAREN CHRISTENSEN

By: /s/ Stephen A. Kroft
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[Verification and Proof of Service omitted in this printing]

¹ For example, the evidence of record discloses that La Mancha is not licensed as a "private club" (see Defs. Exh. 1), that there are no meaningful restrictions for membership in the alleged club and no governing body of the alleged club (see Second Kroft Decl. ¶ 8) and that La Mancha is operated as a hotel (see Beattie, Smith and Porter Decls.; see also Plaintiffs Memorandum of Points and Authorities (filed 9/30/85) at p. 7 (and citations to record therein)).

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

FILED

NOV 25 1985

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

DEFENDANTS' REPLY MEMORANDUM

Hearing Date: Dec. 9, 1985

Hearing Time: 10:00 a.m.

Hearing Place: Courtroom 23

[Table of Contents omitted in this printing]

[Table of Authorities omitted in this printing]

INTRODUCTION

This matter involves plaintiffs' claim that defendants, Professional Real Estate Investors, Inc., and Kenneth Ir-

win (collectively "Irwin") violated plaintiffs' copyrights. The basic issue is whether members and guests at Irwin's La Mancha Private Club and Villas, when viewing videodiscs in a villa rented from La Mancha, are publicly performing plaintiffs' copyrighted motion pictures. The parties have filed cross-motions for summary judgment and memoranda in support of their motions. This memorandum is submitted by Irwin to respond briefly to the contentions raised by plaintiffs in their memorandum opposing Irwin's summary judgment motion.

Plaintiffs' claim is based on the assertion that the entire La Mancha facility is a "public place" and, therefore, the fact that the videodiscs are viewed only by a family in the privacy of the villa they have rented at La Mancha is irrelevant. This argument, however, is contrary to the plain meaning of the Copyright Act, the legislative history of the Act, the relevant case law, and the facts. The villas at La Mancha are private. When a family views a videodisc in their villa, they are not "publicly performing" the video. Moreover, plaintiffs' contention that the rented villas at La Mancha are public places is directly contrary to plaintiffs' position in other cases that rental accommodations are not public.

Plaintiffs' motion is also defective because it raises fact issues that are in dispute. Despite plaintiffs' many concessions, there remain issues concerning whether La Mancha is a private club, what copyrights are owned by plaintiffs, the appropriate measure of damages, if any, and plaintiffs' misuse of their copyrights. Furthermore, plaintiffs' recent reply memorandum raised an additional issue of fact. These issues preclude summary judgment for plaintiffs. In contrast, these issues are not raised by Irwin's cross-motion.

ARGUMENTS

I.

VIEWINGS OF VIDEODISCS IN THE VILLAS AT LA MANCHA ARE NOT OPEN TO THE PUBLIC

Plaintiffs can prevail on their copyright claims only if viewing videodiscs by members and guests in the privacy of the villas they rent at La Mancha is considered a public performance. The fact that the villas are private is beyond dispute and not seriously contested by plaintiffs. Rather, plaintiffs argue that the entire La Mancha facility and all the villas are a public place because the villas are "open" to the public until they are rented to a member or guest. Plaintiffs attempt to focus on the fact that the general public can, within certain limits, rent accommodations at La Mancha. Contending that Irwin "concedes" this point, plaintiffs claim this factor renders the facilities public, and any viewing of videodiscs a public performance. *Reply Memorandum of Points and Authorities in Support of Plaintiffs' Motion for Summary Judgment and in Opposition to Defendants' Cross-Motion* at 1 (hereinafter "Plaintiffs' Reply Memo.").

Plaintiffs identify two criteria that they claim indicate that La Mancha is "open to the public:" (1) advertising the availability of La Mancha to the general public; and (2) renting accommodations to members of the general public. *Plaintiffs' Reply Memo.* at 1. Under these factors, a wide variety of private facilities, such as condominiums, apartments, hotels, and office buildings, would become "public." For example, condominiums and apartments are advertised when they are available for rent and any member of the general public can rent the condominium or apartment. Judged by plaintiffs' criteria, the condominium and apartment are open to the public and viewing videos in these homes would be a public performance. Yet, plaintiffs concede that such facilities are private. *Plaintiffs' Reply Memo.* at 7 n.4. There must, therefore, be some

additional factor that informs the decision whether a place is "open to the public" under the Copyright Law.

Plaintiffs claim this factor is the length of time the accommodations are rented. *Plaintiffs' Reply Memo.* at 7-8. Plaintiffs, however, fail to identify the dividing point between short term "public" rentals and long term "private" rentals. Instead, plaintiffs attempt to distinguish La Mancha from vacation homes, which plaintiffs apparently concede are private accommodations, by arguing that "vacation homes are not rented and re-rented . . . every few days as are La Mancha's villas." *Plaintiffs' Reply Memo.* at 7. The fact, however, is that La Mancha's villas are not rented "every few days." There is usually a three-day minimum and the average rental is 5.6 days. *Declaration of Kenneth F. Irwin* at ¶ 8 (hereinafter "*Irwin Decl.*"). Moreover, villas at La Mancha are frequently rented by the week, the month, and even for the entire winter season of three to four months. *Supplemental Declaration of Kenneth F. Irwin* ¶ 1 (hereinafter "*Irwin Supp. Decl.*"). Vacation homes are rented for similar terms, with rentals for a single weekend, a week, or a full season being common.¹ Accordingly, under plaintiffs' length of rental criterion, La Mancha's villas are private.² Moreover, plaintiffs' attempt to distinguish La Mancha's villas from vacation homes on the basis of the length of rental, at best, raises

¹ In fact, the Internal Revenue Code requires that an owner can occupy his or her vacation home for no more than two weeks out of the year in order to obtain tax deductions for that home. 26 U.S.C. § 280A(d)(1)(A) (1982).

² Consideration of other vacation accommodations also leads to the conclusion that La Mancha is not a public place under the Copyright Law. For example, time-share condominiums are typically sold by the week. The condominiums are jointly owned by their weekly tenants.

a factual issue that precludes their motion for summary judgment.³

The principal flaw in plaintiffs' analysis—that the entire facility must be considered in determining whether a place is "public"—is that they fail to consider all of the characteristics of La Mancha. The length of rental is a factor, as is the accessibility of the facility to the general public, but these factors are not alone determinative. Plaintiffs cite the recent decisions in *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 568 F. Supp. 494 (W.D. Pa. 1983), *aff'd on other grounds*, 749 F.2d 154 (3d Cir. 1984), and *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F. Supp. 315 (M.D. Pa. 1985), as the only support for their argument. Although these cases are not necessarily correct, even these cases fail to support plaintiffs' conclusion that viewing videodiscs in villas at La Mancha is a public performance. In both cases, the court determined whether the facilities were places "open to the public." The courts relied heavily on the fact that the *Redd Horne* and *Aveco* facilities were virtually identical in function and in character to movie theaters—traditionally public places.

The courts identified a variety of factors to determine whether the facility as a whole was open to the public: the purpose of the rental; access to the viewing areas; decor and refreshments typical of movie theaters; admission fees; and high turnover rates. In assessing these factors, the court in *Redd Horne* considered whether "the viewing rooms at Maxwell's more closely resemble mini-movie theaters than living rooms away from home." 568 F. Supp. at 500. Similarly, the court in *Aveco*, at plaintiffs' suggestion, noted that it was the dissimilarity of performances at Nickelodeon from home viewing that made the place "public":

³ See Argument III.A, *infra*, for a discussion of this new factual issue raised by plaintiffs.

A person's home is not rented out in two hour shifts to afford separate groups of persons the opportunity to see a variety of motion pictures.

612 F. Supp. at 320. In both cases, the courts found the facilities to be "mini-movie theaters [and not] living rooms away from home."

Whereas the facilities in *Aveco* and *Redd Horne* were used only for viewing movies, accommodations at La Mancha are rented specifically for use as vacation homes. In particular, La Mancha's members and guests enjoy all of the types of activities one can engage in at a vacation home, such as swimming, playing tennis, relaxing, reading, and similar activities. Access to the grounds of the La Mancha facility is limited to members and guests much like access is limited to the common areas of an exclusive condominium or apartment building. The La Mancha facility is surrounded by locked gates to ensure a degree of privacy characteristic of a residential facility, in contrast to the traffic and bustle of a place "open to the public." The turnover rate of the villas at La Mancha is measured in days, weeks, or months, not hours. The decor of La Mancha's villas is identical to that of fine homes. The rental rates of \$125 to \$720 per day are distinctly unlike the admission charge for a theater.

La Mancha's villas are distinctly home-like and are not public. The villas feature all of the comforts of home: living rooms, dining rooms, fully-equipped kitchens, bedrooms, and bathrooms. It is precisely because La Mancha's facilities have so much in common with homes that they are private. Even under plaintiffs' analysis, when the La Mancha facility as a whole is examined, it much more closely resembles a private residential facility than a "public" place.

These same plaintiffs have already conceded, in the *Aveco* case, that hotel rooms, dormitory rooms, and apartments "are not open to the public . . ." *Plaintiffs' Brief*

in Opposition to Defendants' Cross-Motion for Summary Judgment and in Reply-Support of Plaintiffs' Motion for Summary Judgment in Columbia Pictures Indus., Inc. v. Aveco, Inc., at 7.⁴ In *Aveco*, 612 F. Supp. 315, the defendants set forth three hypotheticals involving: "(1) a college student who takes a video cassette to his room in a dormitory [sic], (2) an individual who lives in an apartment building and takes a video cassette to a suite of rooms that he has rented in the building, and (3) a salesman who takes the video cassette to a hotel room he has rented for a few days." *Brief of Defendants in Opposition to Plaintiffs' Motion for Partial Summary Judgment and in Support of Defendants' Conditional Cross-Motion for Summary Judgment* at 18. The *Aveco* defendants used these hypotheticals to illustrate that their facility was not public. In particular, defendants focused on a salesman who takes the video cassettes to a hotel room that he has rented. In response, plaintiffs argued that the *Aveco* facility was not like the hypothetical. Plaintiffs, however, expressly conceded that "it is clear that such places are not open to the public." *Accord* 2 M. Nimmer, Nimmer on Copyright § 8.18 [C][1][d] (1985) (a performance in a hotel room "is not a public performance"). Since viewing videodiscs in a hotel room are is not a public performance, viewing videodiscs in the villas at La Mancha, which are typically rented for even longer periods of time than a hotel room, is also not a public performance.⁵

⁴ Except for CBS, all the plaintiffs in the present case were also plaintiffs in the *Aveco* case.

⁵ Plaintiffs also argue that the privacy and Fourth Amendment cases, cited in Irwin's supporting memorandum, that hold hotel rooms to be private, are not applicable. Irwin, contrary to plaintiffs' interpretation, did not argue that these cases controlled the interpretation of the Copyright Act. Rather, these cases provide guidance to the court concerning the private nature of La Mancha, particularly with respect to this case which raises an issue of first impression.

Plaintiffs attempt to avoid the decisions in *Redd Horne* and *Aveco* by arguing that the courts did not require that a place be similar to a movie theater in order to be considered open to the public. *Plaintiffs' Reply Memo.* at 5-6. Irwin, however, is not arguing that only movie theaters are public places; nor is Irwin arguing that only home use is private. Rather, the courts in *Redd Horne* and *Aveco* used the dichotomy of theater-like use versus home-like use because these are clear examples of public and private uses. By comparing the various features of defendants' facilities with these two examples, the court could determine whether the facilities in those cases were public rather than private.

These decisions, particularly *Aveco*, have been criticized by legal scholars. In a *New York Times* interview, Professor David Lange, a professor of law at Duke University and a noted author and expert on copyright law, stated that the issue of public performance in the *Redd Horne* and *Aveco* cases was "a very close call that is by no means black and white." *N.Y. Times*, Aug. 20, 1984, at D1, col. 3 (attached hereto as Exhibit 16). Professor Lange went on to note that the operation of the "Nickelodeon" stores at issue in *Aveco* was different from that of *Redd Horne's* "Maxwell's" stores:

The distinction between the two operations could be important in the courts' ultimate judgment. In the case of the Nickelodeon, Professor Lange of Duke University said he thinks the situation is "shaded on the side of the renter" because the showing appears to be a private performance. But at Maxwell's, he said, "the line has been crossed" because of the transmission by the employee. "The transaction appears to call the theater more to mind."

Id.; accord 2 M. Nimmer, *Nimmer on Copyright* § 8.14[C][1] (the court's conclusion in *Redd Horne*, that performances

occurring in viewing rooms at Maxwell's are public because the facility was "open to all members of the public," is questionable). Plaintiffs' only legal support for their novel theory of public performance, therefore, is of questionable authority. Nonetheless, even this authority fails to support plaintiffs' claims.

There are certainly non-home-like uses that are private. Consider, for example, performances in government and business offices. Congress expressly recognized that viewing movies at "meetings of business or governmental personnel" would not be considered a public performance. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 64, *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5677-78. Congress also recognized that private viewing could occur at "clubs, lodges, factories, summer camps and schools." *Id.* Accordingly, the spectrum of what is included in private use runs from home use to clubs and lodges, to schools, and at least to factories and office buildings. Apparently conceding this point, plaintiffs failed to even argue that private use does not encompass this broad spectrum of facilities. Accordingly, La Mancha's facilities, which are much more like a home than an office, falls well on the private side of the private-public dichotomy.⁴

⁴ Plaintiffs also argue that Irwin misinterpreted the statute which defines public performance as occurring "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." 17 U.S.C. § 101 (1982). Irwin does not argue that the two criteria in the statute are not distinct. Rather, the second criterion provides guidance on what is a public place. The normal audience that attends a facility is the principal factor in determining whether a facility is public or private, and the statute itself provides a definition of a private audience. Obviously, if only "a normal circle of a family and its social acquaintances" usually gather at a particular place, it is private. A place is a public place precisely because normally more than a "family and its social acquaintances" gather there. Accord 2 M. Nimmer, *Nimmer on Copyright* § 8.18[C][1][d] (1985) (performances in private lodgings of guests or residents at a hotel, apartment house, or similar establishment

Finally, plaintiffs argue that the courts in *Redd Horne* and *Aveco* used the movie theater-home use analogy "merely to illustrate the public nature of [the *Redd Horne* and *Aveco*] defendants' facilities." *Plaintiffs' Reply Memo.* at 5-6 (emphasis in original). Applying this standard, the private nature of the facilities in *Redd Horne* and *Aveco* were "illustrated" by their similarities to movie theaters.

II.

PLAINTIFFS' FIRST SALE ARGUMENT IS INCORRECT

Plaintiffs fail to understand Irwin's discussion of the first sale doctrine. Irwin never argued that the first sale doctrine insulates otherwise public performances from liability. Rather, "the first sale doctrine gives the defendants the right to rent the videodiscs they have purchased from the plaintiffs." *Plaintiffs' Reply Memo.* at 12. As set forth in Irwin's memorandum, the issues of first sale and public performances are separate and must be analyzed separately. It is plaintiffs who argued that the first sale doctrine does not apply. The doctrine is applicable. It secures Irwin's right to rent videodiscs since plaintiffs have already been paid a royalty on each disc. It is, however, independent of the public performance issue.

III.

PLAINTIFFS HAVE RAISED A NUMBER OF GENUINE ISSUES OF FACT, WHICH ARE MATERIAL AND PREVENT GRANT OF PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT

There remain several genuine issues of material fact that preclude plaintiffs' motion.⁷ Plaintiffs recognize that

are not public performances because they are normally attended only by a normal circle of a family and its social acquaintances).

The simple fact that the parties have already devoted 32 pages of pleadings to the question highlights the existence of factual issues.

the existence of a genuine issue of material fact precludes a summary judgment motion. *Plaintiffs' Reply Memo.* at 14.* Plaintiffs concede, on the other hand, there are no genuine issues of material fact that would prevent the court from granting Irwin's motion.

A. Plaintiffs Have Raised Another Factual Issue in Their Reply Memorandum.

In their attempt to distinguish rental of villas at La Mancha from rentals of vacation homes, plaintiffs have raised the additional issue of the average rental term of a vacation home. This issue is highly material in that plaintiffs concede that vacation homes are not public because they are rented for "long periods of time." *Plaintiffs' Reply Memo.* at 7. The villas at La Mancha, however, are rented for equally long periods. The average stay at La Mancha during 1984 was approximately 5.6 days and rentals of the villas at La Mancha for weeks and even months are common. *Irwin Supp. Decl.* ¶ 1. Although common sense would dictate that La Mancha's rental term is identical to rental of vacation homes, plaintiffs have raised another factual issue. This "term of rental" issue is a key factor in plaintiffs' argument: according to plaintiffs, La Mancha is a public place because it rents for short periods as opposed to the long periods of rentals for admittedly private vacation homes. Exactly what constitutes a "long"

* Plaintiffs appear to have conceded certain factual issues. For example, in their memorandum in support of their motion for summary judgment, plaintiffs raise the issue whether Irwin has "extensively advertised La Mancha in several prominent national and regional magazines." *Plaintiffs' Memorandum of Points and Authorities in Support of Motion for Summary Judgment* at 8. Irwin, in its memorandum in opposition (at 23-24), specifically stated that the advertising issue was irrelevant. Irwin, however, was nonetheless compelled to respond because, not only had plaintiffs asserted this irrelevant fact in their memorandum but they had also included it in their proposed findings of fact. In *Plaintiffs' Reply Memorandum*, they concede that this issue is irrelevant.

and a "short" rental is an issue of fact that must be resolved under plaintiffs' theory of liability.

B. La Mancha is a Private Club and, Hence, Not a Place Open to the Public.

The issue whether La Mancha is a private club or a hotel is material to plaintiffs' motion. As the legislative history of the Copyright Act clearly establishes, if La Mancha is a private club, viewings of videodiscs at La Mancha are public performances *only* if they are attended by a "substantial number of persons outside a normal circle of a family and its social acquaintances." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 64, reprinted in 1976 U.S. Cong. & Ad. NEWS 5659, 5677-78; 17 U.S.C. § 101 (1982). Since performances at La Mancha are attended only by a normal circle of a family and its social acquaintances, if La Mancha is determined to be a private club, viewing of videodiscs at La Mancha is not a public performance.

Plaintiff contends that the issue is irrelevant because it is "undisputed that La Mancha, including its guest villas, is open to the public." *Plaintiffs' Reply Memo.* at 15. Plaintiffs, however, are simply attempting to refute the fact that La Mancha is a private club. The facts do not support their contention. La Mancha's business license (a copy of which is attached hereto as Exhibit 17) reflects the fact that La Mancha is a private club.

The court's decision in *Lerner v. Club Wander-In, Inc.*, 174 F. Supp. 731 (D. Mass. 1959), the case principally relied upon by plaintiffs, does not detract from the explicit legislative history in this regard, nor could it.⁹ In *Lerner*, the court did not reach the question whether a performance strictly limited to a family was public. *Id.* at 732. Rather, the court held that performances at Club Wander-

⁹ The *Lerner* case was decided under the 1909 Copyright Act, almost 20 years before Congress' most recent revision of the Copyright Act in 1978.

In were public because they were in the public areas of the club and were attended by more than the normal circle of a family and its social acquaintances. In contrast, videodiscs are viewed at La Mancha only with a guest's villa. Performances at La Mancha are attended only by a normal circle of a family and its social acquaintances. Hence, in order to grant plaintiffs' motion, the court must first determine that La Mancha is not a semi-public place such as a private club. That, however, raises a genuine issue of fact that cannot be resolved on plaintiffs' motion.

C. Copyright Ownership is Still a Contested Issue.

Absent proof of registration and either ownership or recordation of exclusive assignments for each of the copyrighted works, plaintiffs lack standing to claim infringement. 17 U.S.C. §§ 205(d), 411, 412 (1982); *Swarovski America Ltd. v. Silver Deer Ltd.*, 537 F. Supp. 1201 (D. Colo. 1982) (right must be exclusive); *Rusin v. Sunrise Management, Inc.*, 506 F. Supp. 1284 (D. Colo. 1981). Prior to filing their motion for summary judgment, plaintiffs failed to produce copyright registrations and/or recorded exclusive assignments for 27 of the copyrighted works at issue despite repeated requests to do so during discovery.¹⁰ Even accepting plaintiffs' untimely submissions with their motion for summary judgment, ownership of the exclusive right to authorize public performances of 16 of the works has still not been documented. See Exhibit 18. At this time,

¹⁰ Plaintiffs have been under a continuing obligation to produce these documents since February 7, 1985. Moreover, plaintiffs were also required to produce these documents at the Early Meeting of Counsel, pursuant to Local Rule 6, and at the Pretrial Meeting of Counsel, pursuant to Local Rule 9. Yet, plaintiffs have failed to produce these ownership documents. Those documents were still trickling in on the week that Irwin's Reply Brief was due. Irwin has not had an adequate opportunity to review these documents. Such production is unfair and violates all notions of due process. Moreover, Irwin has not waived this defect in plaintiffs' production and the documents should be excluded from evidence at least for the summary judgment motions.

plaintiffs have withdrawn only eight of those works, *Plaintiffs' Reply Memo.* at 18 n.13, leaving eight contested.

Plaintiffs in their Reply Memorandum attempt to argue that it is somehow Irwin's fault that these documents were not produced. Quite the contrary, it is plaintiffs who must make out a prima facie case. Irwin is under no obligation to drag this information out of plaintiffs, although Irwin has repeatedly, albeit unsuccessfully, attempted to secure the information since discovery commenced.

D. Injury and Damages Remain in Issue.

Plaintiffs incorrectly contend that their election of minimum statutory damages of \$250.00 mitigates the injury issue. This contention, however, is ill-founded for two reasons: First, plaintiffs do not have an unequivocal right to elect statutory damages; and second, Irwin's good faith requires that statutory damages be reduced below \$250.00 per infringement.

Plaintiffs are not entitled to "elect" statutory damages. Where damages and profits can be proven, a copyright owner is not entitled to statutory damages but must accept actual damages plus profits, even if the amount of such damages and profits is *de minimus*. *Shapiro, Bernstein & Co. v. 4636 S. Vermont Avenue, Inc.*, 367 F.2d 236 (9th Cir. 1966). Statutory damages are available only if there is no evidence of the amount of damages or if it is difficult or impossible to prove damages or discover profits earned by the alleged infringer. *Shapiro, Bernstein & Co. v. Bleeker*, 243 F. Supp. 999 (S.D. Cal. 1965), *modified*, 367 F.2d 236 (9th Cir. 1966). Statutory damages are not available where damages and profits can be established because an award of statutory damages is in lieu of actual damages and profits. *Id.* It is not an award premised on notions of penalty or punishment. *Box Scaggs Music v. KND Corp.*, 491 F. Supp. 908 (D. Conn. 1980). Plaintiffs can establish a fair royalty from their past experience. This royalty would be the proper measure of their damages, if any.

Plaintiffs incorrectly assert that Irwin concedes that whether plaintiffs have been damaged is irrelevant. Rather, Irwin has agreed only that further discovery on the injury issue is unnecessary. It is unnecessary only because plaintiffs' injury, if any, is limited to Irwin's profits and a reasonable royalty for each infringement. Irwin has made no profits on the rental of videodiscs at La Mancha. *Irwin Supp. Decl.* ¶ 2. A reasonable royalty would be on the order of cents per infringement, well below the \$250 minimum statutory damages amount.

Second, even were the court to conclude that plaintiffs are entitled to statutory damages, plaintiffs would not be entitled to \$250.00 per infringement. The copyright law provides that:

In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court at its discretion may reduce the award of statutory damages to a sum of not less than \$100.00.

17 U.S.C. § 504(c)(2) (1982). Plaintiffs argue that as a matter of law, the cease and desist letter they sent Irwin constituted "reason to believe" that Irwin was infringing.

The authorities cited by plaintiffs do not establish that a cease and desist letter constitutes "reason to believe" that Irwin's acts constituted copyright infringement. Both *Davis v. E.I. DuPont de Nemours & Co.*, 249 F. Supp. 329 (S.D.N.Y. 1966), and *Pye v. Mitchell*, 574 F.2d 476 (9th Cir. 1978), involved the \$5000 upper limitation on statutory damages for willful infringement. In neither case did the court address or decide that issuance of the cease and desist letter triggers minimum statutory damages of \$250.00 and prevents a reduction of minimum statutory

damages below that level.¹¹ Courts have awarded statutory damages of less than \$250.00 even where the alleged infringer had clear notice of plaintiffs' claim that the activity constituted infringement. In *Frederick Chusid & Co. v. Marshall Leeman & Co.*, 326 F. Supp. 1043 (S.D.N.Y. 1971), the court awarded statutory damages of only \$100 in spite of the fact that defendants were former employees of the copyright owner and were clearly on notice of the existence of plaintiffs' copyrights.

Irwin had no "reason to believe" it was infringing because the issue raised in this case is one of first impression. Irwin "could not know what copyright law required. Before this lawsuit, that issue had not been determined." *Universal City Studios, Inc. v. Sony Corp. of America*, 480 F. Supp. 429, 460 (C.D. Cal. 1979), *modified*, 659 F.2d 963 (9th Cir. 1981), *aff'd*, 464 U.S. 417 (1984). *Redd Horne* and *Aveco* were not decided at the time plaintiffs brought this suit. Moreover, plaintiffs' position in *Aveco*—that hotels are clearly not open to the public—is consistent with Irwin's belief that its activities are not infringing. Finally, under plaintiffs' logic, plaintiffs could destroy an alleged infringer's good faith defense simply by issuing a cease and desist letter, no matter how ill-founded plaintiffs' claims were. Congress specifically established a reasonableness standard rather than the arbitrary standard of receipt of a cease and desist letter as urged by plaintiffs.

E. Plaintiffs' Licensing Agreements Remain in Issue

Although plaintiffs state that they are "willing" to produce some of their licensing agreements, they have failed

¹¹ Moreover, even with respect to the issue that Davis and Pye did address, increased statutory damages for willful infringement, neither case held that issuance of a cease and desist letter alone is sufficient to increase the statutory damages amount.

to do so despite repeated requests by Irwin.¹² Plaintiffs attempt to lay the blame for their continued failure to produce those documents on Irwin. *Plaintiffs' Reply Memo.* at 21-22. Plaintiffs' recitation of the facts, however, is inaccurate. First, plaintiffs claim they have not been able to produce the documents because there is no protective order. To the contrary, Irwin produced documents to plaintiffs under an oral confidentiality agreement and it was agreed that Irwin's counsel would abide by that agreement with respect to plaintiffs' production. Second, plaintiffs imply that Irwin failed to respond to plaintiffs' proposed protective order. In fact, Irwin rewrote the protective order and sent it to plaintiffs on October 3, 1985. Plaintiffs have yet to respond. Third, plaintiffs, the week before Irwin's reply brief was due, offered to produce the RCA license agreement immediately. *See Exhibit 60 to Plaintiffs' Reply Memo.* at 2. When Irwin's counsel called to make the arrangements, however, plaintiffs failed to accommodate even a review of that document.

The documents are relevant to the issue of misuse in addition to the public performance issue. Continued failure of plaintiffs to produce the documents has merely preserved factual issues that may have been resolved by timely production.

IV.

IRWIN'S AFFIRMATIVE DEFENSE OF MISUSE CANNOT BE RESOLVED ON PLAINTIFFS' MOTION FOR SUMMARY JUDGMENT

The defense of misuse is independent from the merits of the public performance issue. Even were the Court to conclude that private viewings at La Mancha constitute

¹² Plaintiffs have been under a continuing obligation to produce their licensing agreements, not just those pertaining to RCA, since February 7, 1985.

public performances, plaintiffs' misuse would prevent the Court from entering judgment for plaintiffs. This principle is well established by the Supreme Court.

A copyright owner will be denied relief against infringement where he has misused his copyrights. *Columbia Pictures Corp. v. Coomer*, 99 F. Supp. 481 (E.D. Ky. 1951); *M. Witmark & Sons v. Jensen*, 80 F. Supp. 843 (D. Minn. 1948), *appeal dismissed*, 177 F.2d 515 (8th Cir. 1949); *Buck v. Gallagher*, 36 F. Supp. 405 (D. Wash. 1940), *appeal dismissed*, 315 U.S. 780 (1942). The court in *Jensen* specifically held that the copyright owner's misuse bars enforcement of his copyrights, even where that misuse is not so egregious as to rise to the level of an antitrust violation.

The authorities relied on by plaintiffs, to the effect that misuse is not a defense to a copyright action, have been overruled by the Supreme Court. See *Plaintiffs' Reply Memo.* at 30. In *Walker Process Equip., Inc. v. Food Mach. and Chem. Corp.*, 382 U.S. 172 (1965), *cert. denied*, 385 U.S. 824 (1966) (a patentee's violation of Section 2 of Sherman Act precludes enforcement of his patents), the Supreme Court held that violations of the antitrust laws constitute one form of misuse that bars enforcement of intellectual property rights. The Supreme Court has expressly held that principles of misuse developed in patent jurisprudence are equally applicable to copyright. *United States v. Loew's, Inc.*, 371 U.S. 388 (1962). Plaintiffs have failed to address this authority. See *Irwin's Memorandum* at 30 n.10.

Plaintiffs complain that enforcement of the antitrust laws against copyright owners who violate them would discourage copyright owners from pursuing their claims. *Plaintiffs' Reply Memo.* at 31. Logic and Congress, however, compel the conclusion that copyright owners who violate the antitrust laws should indeed be discouraged. See *Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 263 (2d Cir. 1979), *cert. denied*, 444 U.S. 1093 (1980);

Columbia Broadcasting Sys. v. American Soc'y of Artist Composers and Producers, 562 F.2d 130 (2d Cir. 1977), *rev'd on other grounds*, 441 U.S. 1 (1979), *cert. denied*, 450 U.S. 970 (1981). A copyright is a statutory grant of a limited form of monopoly. *F.E.L. Publications, Inc. v. Catholic Bishop of Chicago*, 506 F. Supp. 1127, 1136 (N.D. Ill. 1981), *rev'd on other grounds*, 214 U.S.P.Q. 409 (7th Cir.), *cert. denied*, 459 U.S. 859 (1982). That limited monopoly does not give the copyright holder the right to violate other laws with impunity.

Plaintiffs have undertaken a number of acts that constitute misuse and violate the antitrust laws. As explained in Irwin's previous memorandum, plaintiffs have adopted misleading copyright warning labels, restricted their licensed distributors from selling to businesses that rent the videos, and instituted this action and similar actions to prevent development of a video rental market for hotels and resorts. In addition to attempting to discourage others from entering this market, one of plaintiffs' co-conspirators, MGM/Universal Artists, falsely claimed that Irwin had capitulated in this action. These types of activities have been held to constitute antitrust violations. *Cf., Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir. 1982), *cert. denied*, 461 U.S. 958 (1983) (prosecution of litigation for an anticompetitive purpose may violate the antitrust laws even where plaintiff has a colorable claim). Having been injured by that conduct, Irwin has standing to redress plaintiffs' misuse and violations of the antitrust laws. The fact that plaintiffs may also have injured many others in addition to Irwin does not mitigate their actions but rather reinforces the argument that they have violated the antitrust laws and misused their copyrights. Plaintiffs are simply incorrect in their argument regarding Irwin's defenses of misuse and violations of the antitrust law. That misuse bars enforcement of plaintiffs' copyrights.

V.

CONCLUSION

Plaintiffs cannot prevail on their summary judgment motion because performances in villas of La Mancha are private and not public performances. In addition, there remain a number of genuine issues of material fact regarding both the public performance and affirmative defense issues. By plaintiffs' own admissions, however, there are no factual disputes concerning Irwin's cross-motion. Accordingly, and for the foregoing reasons, defendants respectfully request that the Court deny plaintiffs' Motion for Summary Judgment and enter summary judgment in favor of dismissing plaintiffs' complaint and awarding costs.

Dated: November 22, 1985

Respectfully submitted,

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By: /s/ JW King

JEFFREY W. KING

Attorneys for Defendants/

Counterclaimants, Professional Real
Estate Investors, Inc. and Kenneth F.
Irwin

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIMS

SECOND DECLARATION OF MAREN CHRISTENSEN IN
SUPPORT OF PLAINTIFFS' MOTION FOR SUMMARY
JUDGMENT

I, Maren Christensen, declare and say as follows:

1. I am an attorney at law duly licensed to practice in the State of California and before this Court and am a partner in the firm of Rosenfeld, Meyer & Susman, attorneys of record for plaintiffs herein.

2. By letter of November 13, 1985, I transmitted to Jeffrey King, attorney for defendants, documents regarding the recordation in the United States Copyright Office of assignments to the various plaintiffs of the exclusive rights to distribute, exhibit and exploit the following motion pictures:

In Praise of Older Women

Watership Down

The Shootist

Urban Cowboy

A copy of such letter and the enclosed documents are attached hereto as Exhibit "A".

3. Certificates of copyright registration listing Twentieth Century-Fox Film Corporation as a copyright claimant (i.e., owner) for the following motion pictures appear as Exhibit "A" to the Declaration of George Krieiger made in support of Plaintiffs' Motion for Summary Judgment:

Butch Cassidy and the Sundance Kid

Hello Dolly

Mash

4. A certificate of copyright registration listing Warner Bros. Inc. as a copyright claimant of the motion picture entitled "Dirty Harry" appears as Exhibit "A" to the Declaration of Bernard R. Sorkin made in support of Plaintiffs' Motion for Summary Judgment.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 6th day of December, 1985 at Beverly Hills, California.

Maren Christensen
Maren Christensen

LAW OFFICES
ROSENFELD, MEYER & SUSMAN
9601 WILSHIRE BOULEVARD
BEVERLY HILLS, CALIFORNIA 90210-5288

November 13, 1985

Mr. Jeffrey W. King
Collier, Shannon, Rill & Scott
105 Thomas Jefferson Street, N.W.
Washington, D.C. 20007

Re: Columbia Pictures, etc., et al. v. Professional Real
Estate Investors, etc., et al.
U.S.D.C Case No. CV 83-2594 WPG

Dear Jeffrey:

Enclosed are documents evidencing the recordation of transfer documents regarding the following titles:

"In Praise of Older Women"
"Watership Down"
"Urban Cowboy"
"The Shootist"

In addition, as you requested in your November 5, 1985 letter, I will send under separate cover not later than Friday November 15 the documents responsive to your request for production of documents that plaintiffs have previously agreed to produce and that are not confidential.

Finally, I have still not received a response from you to my November 6, 1985 letter regarding the RCA license agreements. Accordingly, I repeat my request in that letter that you contact me at your earliest convenience with regard to resolving our differences over the protective order or entering into an interim attorneys' only protective order in order to review the unredacted RCA license agreements. I can have these available to you within

twenty-four hours of your agreement to such a protective order.

Upon agreement to an appropriate protective order regarding the RCA agreements we will produce the RCA agreements following the review procedures you previously suggested to me, to wit: (1) an attorney representing plaintiffs will accompany you; (2) you will take no notes, but will be able to copy any provisions regarding home-use restrictions and any provisions that support a contention that the agreements authorize the public performance of plaintiffs' motion pictures; (3) if you and plaintiffs' attorney disagree on whether a provision can be copied the dispute will be referred to Judge Gray.

The foregoing procedure will allow you to satisfy yourself and your client that the RCA license agreements contain no authorization for the public performance of any of plaintiffs' motion pictures.

I look forward to hearing from you.

Sincerely,

Maren Christensen
Maren Christensen

MC/BR
Enclosures

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT COURT**

HONORABLE WILLIAM P. GRAY, JUDGE PRESIDING

NO. CV 83-2594-WPG

**COLUMBIA PICTURES INDUSTRIES, ET AL.
PLAINTIFFS.**

VS.

**PROFESSIONAL REAL ESTATE INVESTORS, ET AL.
DEFENDANTS.**

REPORTER'S TRANSCRIPT OF PROCEEDINGS

**LOS ANGELES, CALIFORNIA
MONDAY, DECEMBER 19, 1985**

[3] LOS ANGELES, CA; MONDAY, DECEMBER 16, 1985

THE CLERK: NUMBER 6 ON THE CALENDAR, CIVIL 83-2594. COLUMBIA PICTURES INDUSTRIES, ET AL. COUNSEL, PLEASE STATE YOUR APPEARANCES.

MR. KROFT: STEVE KROFT AND MAREN CHRISTANSON FOR THE MOVING PARTIES.

THE COURT: ALL RIGHT. MR. KROFT.

AND WHO DO WE HAVE ON THE OTHER SIDE?

MR. KING: JEFFREY KING, AND I AM HERE WITH MY CO-COUNSEL PATRICK J. COYNE AND LAURA BARNS. AND WE REPRESENT TWO OF THE DEFENDANTS PROFESSIONAL REAL ESTATE INVESTORS AND PRINCIPAL OWNER KENNETH IRWIN.

THE COURT: MR. KROFT, I'VE THOUGHT A LOT ABOUT THIS CASE AND MY PRESENT ATTITUDE IS THAT I THINK YOU ARE GOING TO LOOSE. LET ME TRY A FEW

HYPOTHETICALS AND THEY ARE STRICTLY HYPOTHETICAL.

FIRST, I OWN A HOME IN PASADENA AND I HAVE A VCR.

— MR. KROFT: THAT IS A SIMILAR TYPE OF PRODUCT, YOUR HONOR. WE ARE TALKING ABOUT DISC PLAYERS HERE.

THE COURT: ANYWAY, I OWN A DISC PLAYER, AND I GO TO A STORE DOWN IN PASADENA AND RENT A TAPE OF A MOTION PICTURE FOR ME TO TAKE HOME, AND I RENT IT FOR TWO NIGHTS. [4] THE FIRST NIGHT MY WIFE AND I LOOKED AT IT BY OURSELVES. NO PROBLEM.

MR. KROFT: NO PROBLEM.

THE COURT: THE NEXT NIGHT, WE LIKED IT SO MUCH, THAT WE INVITED OUR NEXT DOOR NEIGHBOR AND HIS WIFE TO COME OVER TO SEE IT, AND THEY DO. ANY PROBLEM?

MR. KROFT: NO PROBLEM.

THE COURT: LAST, IN SEPTEMBER I SAT FOR TWO MONTHS IN HAWAII, AND I RENTED A CONDOMINIUM FOR THAT TWO MONTHS AT THE ILLIKAI HOTEL, AND I'D TOOK MY OWN VCR WITH ME. I WENT ACROSS THE STREET AND RENTED A MOTION PICTURE DISC AND I PLAYED IT FOR MYSELF AND MY WIFE.

ANY PROBLEM?

MR. KROFT: YOUR HONOR, THAT QUESTION IS NOT ANSWERED QUITE SO SIMPLY. THERE IS NO PRACTICAL PROBLEM IF YOU WANTED TO LOOK AT THE TECHNICAL LEGALITIES OF THAT. I BELIEVE THAT THAT PERFORMANCE TOOK PLACE IN A PUBLIC PLACE.

THE COURT: PERFORMANCE TOOK PLACE? I RENTED THAT CONDOMINIUM FOR TWO MONTHS.

MR. KROFT: YES, YOUR HONOR.

THE COURT: NOBODY WAS ENTITLED TO COME IN THERE EXCEPT ME.

MR. KROFT: I ASSUME THAT THAT CONDOMINIUM WAS AVAILABLE BY THE DAY OR TWO DAYS, AND SO FORTH. SO, YES, [5] YOUR HONOR, I BELIEVE THAT WOULD BE A PUBLIC PERFORMANCE, AS I SAY.

THE COURT: REALLY?

MR. KROFT: AS I SAY, AS A PRACTICAL MATTER THERE WAS NO PROBLEM. AND THE REASON IT IS NO PROBLEM—AND I CAN UNDERSTAND THE COURT'S CONCERN ABOUT THAT HYPOTHETICAL BECAUSE I THINK THE COURT IS WORRIED ABOUT PEOPLE SUCH AS ANYBODY WHO WOULD BE VIEWING SOMETHING IN A ROOM PERHAPS BEING EXPOSED TO LIABILITY. I THINK THAT IS WHERE YOU ARE GOING.

THE COURT: BEING EXPOSED TO LIABILITY.

MR. KROFT: YOU WOULD NOT BE EXPOSED TO LIABILITY BECAUSE NOBODY WOULD EVER KNOW ABOUT THAT VIEWING, YOUR HONOR.

THE COURT: NO. I AM TELLING YOU ABOUT IT.

MR. KROFT: I UNDERSTAND.

THE COURT: THE THING THAT I DON'T UNDERSTAND IS, IF IT IS ALREADY IN MY CONDOMINIUM IN PASADENA, WHY ISN'T IT ALL RIGHT TO DO EXACTLY THE SAME THING IN A CONDOMINIUM THAT I HAVE RENTED FOR TWO MONTHS IN HAWAII?

MR. KROFT: YOUR HONOR, NOBODY IS EVER GOING TO CHALLENGE THE INDIVIDUAL FOR DOING THAT. YOU SAY, "WHY ISN'T THAT ALL RIGHT?" NOBODY IS GOING TO CHALLENGE THE INDIVIDUAL.

THE COURT: WOULD YOU HAVE A RIGHT TO CHALLENGE?

[6] IF YOU DON'T HAVE A RIGHT TO CHALLENGE ME IN PASADENA, WHY DO YOU HAVE A RIGHT TO CHALLENGE ME IN HAWAII WHERE I RENTED A PLACE FOR TWO MONTHS?

MR. KROFT: IF THIS CONDOMINIUM IS AVAILABLE BY THE DAY—

THE COURT: I DON'T KNOW WHETHER IT IS NOR NOT. I RENTED IT FOR TWO MONTHS.

OKAY. LET'S TAKE THE NEXT ONE: IN JANUARY, I AM GOING TO HAVE TO GO BACK TO HAWAII, AND I AM GOING BY MYSELF THIS TIME, AND I AM ONLY GOING TO BE THERE FOR THREE NIGHTS, AND I RENTED A HOTEL ROOM IN THE SAME ILLIKAI. RIGHT NEXT DOOR. LET'S ASSUME, TO THE CONDOMINIUM NUMBER ON THE 21ST FLOOR THAT I HAD IN SEPTEMBER. THE HOTEL RENTS ROOMS AND THEY ALSO HAVE CONDOMINIUMS THAT OTHER PEOPLE OWN, BUT THIS HAPPENS TO BE RIGHT NEXT DOOR, AND I RENT A VCR ACROSS THE STREET AND I RENT A TAPE ACROSS THE STREET. I BRING MY OWN VCR. I LOOK AT IT ALL BY MYSELF. ANY PROBLEM?

MR. KROFT: YOUR HONOR, THE WAY YOU POSE THAT QUESTION, THE ANSWER IS NO PROBLEM ABOUT WHAT YOU ARE DOING.

THE COURT: AM I JUSTIFY IN LAW? HAS ANYBODY VIOLATED THE LAW OR CREATED ANY JUSTIFIABLE CLAIM?

MR. KROFT: YOUR HONOR, MAY I ANSWER THAT WITH AN EXPLANATION? BECAUSE THE EXPLANATIONS ARE VERY [7] IMPORTANT HERE.

THE ANSWER IS: I BELIEVE TECHNICALLY THAT MAY HAVE BEEN AN INFRINGEMENT, THOUGH THERE IS NO COURT THAT HAS RULED ON THAT, BUT I HAVE TO GIVE AN EXPLANATION.

THE COURT: GO AHEAD.

MR. KROFT: WHAT YOU ARE DOING THERE ISN'T FOR ANY COMMERCIAL PURPOSE, AND THE RENTAL STORE, WHICH IS MORE ANALOGOUS TO WHOM WE ARE FOCUSING ON, THE PERSON WHO HAS FURNISHED THE TAPE DOESN'T KNOW THAT YOU ARE TAKING THAT TAPE TO A PUBLIC PLACE.

THE COURT: SURE THEY ARE. I AM TELLING THEM.

WHAT DID YOU MEAN A PUBLIC PLACE? IS MY CONDOMINIUM A PUBLIC PLACE?

MR. KROFT: YOUR CONDOMINIUM IN PASADENA ISN'T A PUBLIC PLACE.

THE COURT: NO, NO. IN HAWAII. MY TWO MONTHS CONDOMINIUM.

MR. KROFT: IF IT IS AVAILABLE FOR THE NIGHT, I DO NOT BELIEVE THAT—

THE COURT: I HAD A LEASE FOR TWO MONTHS.

MR. KROFT: I UNDERSTAND, YOUR HONOR. THE EXPLANATION I WAS ABOUT TO GIVE YOU, THE CONTEXT WHICH I THINK THIS MUST BE VIEWED IS TO GET AWAY FROM—I UNDERSTAND THE COURT'S HYPOTHETICALS, BUT I THINK SOME OF THE DANGERS SOMETIME IN VIEWING CASES THAT ARE IFY—I [8] DON'T WANT TO SAY AT THE EDGE, BUT CERTAINLY HAVEN'T BEEN RULED UPON BEFORE, BUT CERTAINLY HYPOTHETICALS THAT LEAD YOU IN THE WRONG DIRECTION.

WHAT IS GOING ON HERE, THIS MOVIE PROGRAM THAT LA MANCHA RUNS AS A COMMERCIAL ENTERPRISE OPERATED FOR THE ENTERTAINMENT OF PAYING GUESTS FOR THE COMMERCIAL ESTABLISHMENT, AND I JUST CAN NOT IMAGINE, YOUR HONOR, THAT IF YOU LOOK AT IT IN THAT LIGHT, YOU WOULD ALLOW ANYONE TO OPERATE AN UNAUTHORIZED, ONSITE, COMMERCIAL VIEWING SERVICE AT A PLACE THAT IS MADE AVAILABLE TO ANY MEMBER OF THE PUBLIC THAT WANTS TO COME THERE AND STAY THERE AND AVAIL HIMSELF OF THE OPPORTUNITY TO USE THIS COMMERCIAL VIEWING SERVICE, BECAUSE THIS IS A COMMERCIAL VIEWING SERVICE AND THAT IS WHAT WE ARE FOCUSING ON.

THE COURT: THE RENTAL PLACE ACROSS THE STREET IS PARTICIPATING IN A COMMERCIAL VIEWING

SERVICE; HE RENTS ME A TAPE. HE DOESN'T KNOW WHAT I AM GOING TO DO WITH IT.

MR. KROFT: THAT'S RIGHT.

THE COURT: BUT, IN MY CASE, I AM TAKING IT TO MY TWO MONTHS CONDOMINIUM ROOM TO LOOK AT IT, JUST MY WIFE AND I, EXACTLY IN THE SAME MANNER THAT WE DO IN PASADENA.

NOW, WHAT IS THE PUBLIC ASPECT THERE?

MR. KROFT: IT IS A PLACE OPEN TO THE PUBLIC.

THE COURT: NOT MY ROOM ISN'T.

MR. KROFT: YOUR HONOR, LET ME GET AT IT THIS [9] WAY: YOUR ROOM IS PROBABLY BEING OFFERED FOR RENTAL, NOT WHILE YOU ARE IN IT NOBODY IS GOING TO COME IN IT, BUT IT IS BEING OFFERED FOR RENTAL BY THE HOTEL BY THE NEXT GUEST. IT IS PROBABLY BEING RESERVED BY THE HOTEL FOR THE NEXT GUEST.

THE COURT: SURE.

MR. KROFT: THAT PLACE ISN'T OFF LIMITS FOR COMMERCE BY THE HOTEL. IT IS JUST CLOSED TO ENTRY BY ANYBODY ELSE UNTIL YOU LEAVE. IT IS STILL BEING MADE AVAILABLE TO THE PUBLIC.

THE COURT: THE HOTEL DOESN'T OWN THIS. I DON'T KNOW HOW THEY WORK IT, BUT A PRIVATE PERSON OWNS THE CONDOMINIUM IN THE HOTEL. I DIDN'T KNOW IT BEFORE, IN FACT, I HAD A BAD TIME WITH THE TELEPHONES AND THE MAIL BECAUSE THE HOTEL WOULDN'T EVEN ACCEPT MAIL OR TELEPHONE CALLS FOR ME. AND WE WILL STICK WITH THIS HYPOTHETICAL, BUT I AM COMING TO A TOUGHER ONE NEXT.

IT IS OWNED BY A PRIVATE PERSON. IT IS LEASED THROUGH A DIFFERENT AGENCY.

MR. KROFT: YOUR HONOR, IF THAT PRIVATE PERSON DOESN'T USE THAT CONDOMINIUM FOR HIM OR HER-

SELF AND DOES NOTHING BUT RENT IT TO MEMBERS OF THE PUBLIC FOR ECONOMIC REASON, BE THEY TAX REASONS OR, HOPEFULLY, REVENUE REASONS, THAT PLACE IS BEING MADE AVAILABLE TO THE PUBLIC EVEN AS YOUR STAYING IN IT, YOUR HONOR, BECAUSE AS YOU [10] WALK OUT THE DOOR, THEY HAVE ALREADY MADE ARRANGEMENTS FOR SOMEBODY ELSE TO WALK IN.

THE COURT: SO? FORGET THE CONDOMINIUM.

SUPPOSE I OWN A 300-UNIT APARTMENT BUILDING. SOME OF MY TENANTS ARE THERE ON A YEARLY BASIS, SOME ARE ON A MONTH-TO-MONTH BASIS, SOME ON ARE ON A WEEK-TO-WEEK BASIS. AND I ADVERTISE IN THE PAPER, "COME STAY IN MY APARTMENT HOUSE. I FURNISH A TELEVISION SETS THAT HAS A VCR."

IS THAT PUBLIC ALSO?

MR. KROFT: YOUR HONOR, THOSE PEOPLE ARE USING THOSE APARTMENTS AS THEIR HOMES.

THE COURT: SURE.

MR. KROFT: THEY ARE PRINCIPAL RESIDENTS.

THE COURT: NO, NOT PRINCIPAL RESIDENTS. SOME COME TO STAY FOR VACATION FOR A WEEK JUST TO GET AWAY.

MR. KROFT: I HAVE NEVER HEARD OF A PLACE LIKE THAT.

THE COURT: AN APARTMENT HOUSE? LOOK, I USED TO GO DOWN TO BALBOA FOR THE SUMMER, RENTED SOMEBODY'S APARTMENTS FOR TWO WEEKS. I DON'T CARE IF IT IS ONE UNIT OR 300 UNITS.

MR. KROFT: YOUR HONOR, AGAIN, I APPRECIATE WHAT THE COURT IS TRYING TO WRESTLE WITH. YOU ARE SUGGESTING THAT LINES SOME DAY ARE GOING TO HAVE TO BE DRAWN IF THE [11] COURT ACCEPTS OUR POSITION THAT THE VIEWINGS AT LA MANCHA

ARE TAKING PLACE IN A PLACE OPEN TO THE PUBLIC. SOMEDAY SOMEBODY MIGHT COME INTO THIS COURT WITH A 300-UNIT APARTMENT THAT YOU ARE TALKING ABOUT AND YOU ARE WORRIED ABOUT THAT, AND I UNDERSTAND THAT.

AND SOME POINT THEN THE COURT IS GOING TO HAVE TO DRAW A LINE BETWEEN WHAT IS PLACE OPEN TO THE PUBLIC AND WHAT IS A PLACE NOT OPEN TO THE PUBLIC, EVEN THOUGH THEY MIGHT SMELL A LITTLE BIT THE SAME IN CERTAIN RESPECTS. BUT WHAT WE ARE SAYING HERE, YOUR HONOR, IS THAT WE ARE SO FAR ON THE SIDE OF A PLACE OPEN TO THE PUBLIC AS LA MANCHA AS OPPOSED TO A 300-UNIT APARTMENT. YOU DON'T HAVE TO WORRY ABOUT DRAWING THAT LINE FOR US.

THE COURT: I DON'T KNOW SEE HOW IT IS PUBLIC. WHAT DO YOU SAY, "A PLACE—

MR. KROFT: "A PLACE OPEN TO THE PUBLIC."

THE COURT: "A PLACE OPEN TO THE PUBLIC."

MY CONDOMINIUM ROOM IN HAWAII WAS NOT OPEN TO THE PUBLIC WHILE I WAS THERE.

MR. KROFT: WHILE YOU WERE THERE—

THE COURT: AND WHEN I GO BACK IN JANUARY, IT IS GOING TO BE OPEN TO THE PUBLIC WHILE I AM THERE. IT IS JUST AS PRIVATE AS MY CONDOMINIUM IS IN PASADENA, ISN'T IT?

MR. KROFT: YOUR HONOR, A TELEPHONE BOOTH—AND [12] I DON'T MEAN TO BE FACEOUS—BUT THEY ARE LOTS OF PLACES THAT DO NOT ALLOW ENTRY BY SOMEBODY ELSE WHEN THEY ARE BEING OCCUPIED BY THE LICENSED OCCUPANTS, BUT THAT DOESN'T MAKE THEM PRIVATE PLACES WITHIN THE CONTEMPLATION OF THE COPYRIGHT ACT.

THE COURT: I AM NOT LIVING IN A TELEPHONE BOOTH, I AM LIVING IN THAT A HOTEL ROOM.

MR. KROFT: NO. AS I SAY, THERE ARE LOTS OF PLACES, AND I HAVEN'T TRIED TO THINK OF ALL OF THEM, BUT THEY ARE RESTAURANTS IN TOWN WHERE YOU CAN HAVE A PRIVATE BOOTH FOR YOUR DINNER. NOBODY ELSE COULD COME INTO THAT PRIVATE BOOTH.

IF YOU HAD A VCR IN THAT AND YOU WERE WATCHING A MOVIE IN THERE, I DON'T THINK ANYBODY WOULD SAY THAT THAT IS NOT A PLACE THAT IS OPEN TO THE PUBLIC, BUT NOBODY ELSE CAN GO IN THERE.

THE COURT: I AM MINDFUL OF THIS CASES OF WHERE THEY HAVE A STORE WITH A PRIVATE BOOTH JUST FOR PURPOSES OF LOOKING AT THE TAPE. IT IS ALMOST LIKE GOING TO THE THEATER. EXCEPT YOU HAVE A PRIVATE CUBICAL. THAT IS A LITTLE TOUGHER.

BUT I GO BACK TO THE ADAGE, "A MAN'S HOUSE IS HIS CASTLE." AND IF I AM LIVING IN A HOTEL, BE IT FOR A YEAR—AS SOME PEOPLE DO—OR NIGHT, IT SEEMS TO ME THAT IT IS NOT PUBLIC. IT IS MY CASTLE FOR THE NIGHT.

[13] MR. KROFT: YOUR HONOR, I BELIEVE IT IS YOUR CASTLE FOR A NIGHT. I DO NOT THINK, THOUGH, FOR PURPOSES OF THE COPYRIGHT ACT, THAT MAKES THAT PLACE NOT OPEN TO THE PUBLIC FOR PURPOSES OF IMPOSING LIABILITY ON THE COMPANY THAT IS EXPLOITING THE COPYRIGHTED MOTION PICTURES OWNED BY THE PLAINTIFFS FOR A PROFIT FOR COMMERCIAL PURPOSES. THAT IS ALL IT IS DOING, YOUR HONOR.

THE COURT: WHAT THEY ARE DOING, THEY ARE RENTING A HOTEL ROOM AND, AS PART OF THAT INDUCEMENT, WHY, THEY MAKE AVAILABLE THE FACILITIES TO PLAY A TAPE.

MR. KROFT: FOR AN EXTRA FEE.

THE COURT: SURE.

MR. KROFT: FOR AN EXTRA FEE.

THE COURT: AS FAR AS THE FEE IS CONCERNED, IF I RENT IT FROM THE STORE ACROSS THE STREET, THEY ARE GETTING A FEE BUT THAT DOESN'T MAKE IT A PUBLIC USE.

MR. KROFT: YOUR HONOR, THERE IS ANOTHER ASPECT OF THE DEFINITION OF TO PERFORM PUBLICALLY IN SECTION 101,, WHICH WE HAVE QUOTED IN OUR BRIEF, AND THAT IS THE ONE THAT PROVIDES THAT A TRANSMISSION TO MEMBERS OF THE PUBLIC, WHETHER THEY ARE GATHERED IN THE SAME PLACE OR SEPARATE PLACES, OR SEEING THE MOVIE AT THE SAME TIME OR SEPARATE TIMES IS CONSIDERED A PUBLIC PERFORMANCE. I KNOW THAT IS SOMEWHAT DIFFERENT THAN THIS SITUATION, BUT IN SOME WAYS IT IS VIEWED THE SAME BY THE LEGISLATIVE [14] HISTORY. THE HOUSE REPORT, WHICH WE HAVE POINTED OUT, I BELIEVE, IN OUR PAPERS, MAKES IT VERY CLEAR. A HOTEL WERE TO BY CLOSED CIRCUIT TRANSMITTED A MOTION PICTURE BY WIRE TO THE TELEVISION SETS IN EACH OF THOSE ROOMS—WHICH ARE THE CASTLES OF THE PUBLIC OCCUPYING THEM—THAT WOULD BE A PUBLIC PERFORMANCE, EVEN THOUGH THOSE PEOPLE ARE VIEWING THE PICTURE IN THE PRIVACY OF THEIR OWN HOTEL ROOM.

THE COURT: A BROADCAST BY CLOSE CIRCUIT TELEVISION?

MR. KROFT: YES. I WOULDN'T CALL IT A TRANSMISSION.

THE COURT: WE'LL—

MR. KROFT: YOUR HONOR, WHAT IS HAPPENING HERE AND IF YOU ARE VIEWING PROFESSOR NIMMER'S TREATISE, HE SUGGESTS IF YOU LOOK AT THE INTENT OF THE FRAMERS OF THE STATUTE, HE DOES THIS—I DON'T REMEMBER THE SECTION IN THE TREATISE. HE SAYS: THAT IF SOMEBODY IS WITHOUT AUTHORITY MAKING AVAILABLE—I WOULD SAY YOU WOULD HAVE TO HAVE THE CAVEAT—IN A PLACE REGULARLY ATTENDED BY THE PUBLIC BY THE HO-

TEL, THE SAME COPY OF THE MOTION PICTURE OVER AND OVER AND OVER AND OVER AND OVER AGAIN, NOT FOR HOME VIEWING, THAT THAT REPEATED USE ACCOMPLISHES THE SAME THING THAT THE TRANSMISSION TO SEVERAL PEOPLE IN [15] INDIVIDUAL HOTEL ROOMS ACCOMPLISHES.

THE COURT: SUPPOSE NIXON SAID THAT HE LOOKED AT PATTON FIVE OR SIX TIMES, OR MAYBE TWELVE TIMES, I FORGET. SUPPOSE IN MY HOME IN PASADENA I SEE PICTURE X. I RENT IT FROM SOMEBODY ACROSS THE STREET FOR A NIGHT. MY WIFE AND I LOOK AT IT AND I SAY, "OH, THIS IS GREAT. I WANT TO SEE IT AGAIN." AND I RENT IT AGAIN. AND I RENT IT AGAIN OVER AND OVER AND OVER AGAIN ONCE A WEEK. THAT IS NOT PUBLIC VIEWING.

MR. KROFT: I DON'T THINK SO, YOUR HONOR, IN YOUR HOME, NO.

THE COURT: AND THE PURPOSE OF THIS STORE ACROSS THE STREET IS TO RENT THAT TAPE TO AS MANY MEMBERS OF THE PUBLIC AS HE CAN FIND OR AS HE CAN ATTRACK.

MR. KROFT: SURE. FOR PRIVATE PERFORMANCE?

THE COURT: SURE. BUT THE PROBLEM IS MY PERFORMANCE IN MY HOTEL ROOM IS A PRIVATE PERFORMANCE. AND WHAT DIFFERENCE DOES IT MAKE WHO OWNS THE REAL PROPERTY?

MR. KROFT: IT IS NOT JUST A QUESTION OF WHO OWNS THE REAL PROPERTY, YOUR HONOR. THE RENTAL STORE DOESN'T FURNISH YOU THE—LET ME BACK UP.

THE RENTAL STORE DOES NOT ALLOW PEOPLE INTO YOUR HOME TO VIEW THAT TAPE WITH YOU.

THE COURT: OF COURSE, NOT.

[16] MR. KROFT: THE RENTAL STORE DOES NOT PLACE THE VCR IN YOUR HOME—CERTAINLY YOU CAN RENT ONE IF YOU WANT TO, BUT THEY DON'T PUT IT

THERE FOR THE PURPOSE OF ALLOWING YOU OR ANYBODY ELSE THAT WANTS TO VIEW THAT FILM—

THE COURT: IN MY EXAMPLE SO FAR I BROUGHT MY OWN VCR.

MR. KROFT: THAT IS WHAT I AM TRYING TO SAY, YOUR HONOR. THE RENTAL STORE DOESN'T DO ANYTHING NEARLY ANYTHING THE SAME AS WHAT THE DEFENDANTS OF LA MANCHA ARE DOING.

THE COURT: WE HAVEN'T GOT THE DEFENDANTS OF LA MANCHA. I BRING MY OWN VCR.

MR. KROFT: YES.

THE COURT: WOULD COLUMBIA PICTURES HAVE A RIGHT TO SUE THE HOTEL?

MR. KROFT: THE HOTEL?

THE COURT: OR WHOM WOULD THEY BE ABLE TO SUE?

MR. KROFT: I DON'T BELIEVE THE HOTEL WOULD BE AUTHORIZING THAT PERFORMANCE, YOUR HONOR; THEREFORE, THE ANSWER IS NO.

THE COURT: OKAY. NOW, THE HOTEL SAYS—

MR. KROFT: BUT THAT DOESN'T—

THE COURT: I SUPPOSE IT USED TO BE—ANYWAY. THE HOTEL SAYS, "LOOK, YOU DON'T HAVE TO BRING [17] YOUR OWN VCR. WE HAVE A VCR FOR YOUR BENEFIT."

IT SO HAPPENS AND I BRING MY OWN TAPES AND PLAY THEM IN THE VCR. THE TAPE THAT I RENTED—I WILL TELL YOU WHAT.

I RENTED A TAPE FROM THE STORE ACROSS THE STREET TO LOOK AT IT IN PASADENA BUT I DIDN'T GET IT DONE, SO I TOOK IT TO HAWAII WITH ME AND PUT IT IN THE VCR THAT THE HOTEL FURNISHES. IT THAT A VIOLATION JUST BECAUSE I LOOKED AT IT IN HAWAII IN A HOTEL?

MR. KROFT: YOUR HONOR, IT IS A VIOLATION, I BELIEVE, BUT ONE THAT WOULD NEVER, EVER BE DETECTED.

THE COURT: I AM NOT CONCERN ABOUT THAT. IT IS DETECTED BECAUSE I AM TELLING YOU ABOUT IT.

MR. KROFT: MAY I TRY A HYPOTHETICAL ON YOU?

THE COURT: SURE.

MR. KROFT: YOUR HONOR, BECAUSE I THINK IT WILL TEND TO SHOW THAT PERHAPS DIFFERENT DIRECTIONS DEPENDING ON THE HYPOTHETICAL YOU USE. I DON'T BELIEVE THERE IS ANY DISPUTE. I WANT TO LEAD YOU ON A SET OF HYPOTHETICALS.

THE COURT: I AM NOT THROUGH WITH YOU YET.

(LAUGHTER.)

MR. KROFT: I UNDERSTAND YOU ARE NOT THROUGH WITH ME, BUT I WANTED MY CRACK IF IT IS ALL RIGHT WITH THE COURT.

IF LA MANCHA MAINTAINED A BIG MEETING ROOM IN [18] ITS CENTRAL ADMINISTRATION BUILDING AND SHOWED PLAINTIFF'S MOTION PICTURES TO ANY MEMBER OF THE PUBLIC STAYING AT LA MANCHA THAT WANTED TO SAY AT LA MANCHA.

THE COURT: NO PROBLEM.

MR. KROFT: NO PROBLEM. THAT IS A PUBLIC PERFORMANCE.

THE COURT: SURE.

MR. KROFT: AND IF LA MANCHA, INSTEAD OF MAINTAINING THAT BIG MEETING ROOM, REPLACED IT WITH A SERIES OF SMALL INDIVIDUAL VIEWING ROOMS IN THAT CENTRAL ADMINISTRATION BUILDING AND, BY CLOSED CIRCUIT, BY WIRE, TRANSMITTED OUR FILMS TO MEMBERS OF THE PUBLIC STAYING AT THE LA MANCHA THAT WANTED TO SEE THOSE FILMS UNDER THE TEACHING OF REDD HORNE, AGAIN, THAT IS A PUBLIC PLACE.

THE COURT: I HAVE NO PROBLEM. THERE ARE CASES ON THAT ABOUT A HOTEL WHERE--

MR. KROFT: BUT AT LA MANCHA, I WANT TO USE THAT.

THE COURT: OKAY. I DON'T HAVE ANY PROBLEM WITH THAT.

MR. KROFT: LET'S CHANGE THE HYPOTHETICAL A LITTLE BIT MORE.

INSTEAD OF USING THE CLOSED CIRCUIT SYSTEM, WHAT LA MANCHA DOES IS PUT DISC PLAYERS IN THOSE INDIVIDUAL VIEWING ROOMS IN THAT CENTRAL ADMINISTRATION BUILDING AND [19] RENTS DISCS TO MY MEMBER OF THE PUBLIC STAYING AT LA MANCHA WHO WANTS TO GO INTO THAT INDIVIDUAL VIEWING ROOMS AND WATCH THOSE DISCS.

THE COURT: INDIVIDUAL VIEWING ROOMS, HOWEVER.

MR. KROFT: THAT'S RIGHT.

THE COURT: I HAVE NO PROBLEM WITH THAT. THAT IS AWFULLY CLOSE TO THE CASE THAT IS IN THE BOOKS.

MR. KROFT: BUT IT IS AN AMENITY OFFERED TO GUESTS AT THE HOTEL.

THE COURT: BUT THEY DON'T LEAVE THEIR OWN ROOMS. THEY GO TO A VIEWING ROOM OR TO A LARGE AUDITORIUM.

MR. KROFT: THAT'S RIGHT.

THE COURT: AND I CAN'T FIND ANY DIFFERENCE BETWEEN THE VIEWING ROOM AND THE AUDITORIUM BECAUSE OF THAT CASE.

MR. KROFT: LET ME PROCEED FURTHER WITH MY STRING OF HYPOTHETICALS.

THAT VIEWING ROOM COULD BE VERY SPARE, OF COURSE, THEY JUST HAVE WOODEN CHAIRS. BUT IF

LA MANCHA PUT FANCY FURNITURE, BATH ROOMS, EVEN KITCHENETTS AND, FOR THAT MATTER, BEDS IN THOSE VIEWING ROOMS, YOUR HONOR, THAT WOULDN'T MAKE THOSE VIEWINGS ANY LESS IN A PLACE OPEN TO THE PUBLIC.

THE COURT: OH, YES, IT DOES.

[20] MR. KROFT: YOUR HONOR, I AM NOT CALLING THEM VILLAS AT THIS POINT. I WANT THE COURT TO UNDERSTAND THAT THIS HYPOTHETICAL IS STILL A SMALL FOUR BY SIX FOOT VIEWING ROOM, SOMETHING LIKE THAT AT LA MANCHA. ALL THEY HAVE DONE NOW IS MAKE THOSE ROOMS MORE COMFORTABLE. THEY HAVEN'T RENTED THEM FOR OVERNIGHT STAYS. I STILL WOULD ASSUME, THAT WITH THAT CAVEAT, THE COURT WOULDN'T HAVE ANY PROBLEM WITH THAT HYPOTHETICAL.

THE COURT: OH, YES, I HAVE A LOT OF TROUBLE WITH IT. IT COMES WITH A HOTEL ROOM FOR A PERSON TO STAY OVERNIGHT.

MR. KROFT: NO, THAT IS THE POINT I JUST TRIED TO MAKE TO YOUR HONOR. WE ARE STYLE HYPOTHESIZING THAT PEOPLE ARE NOT STAYING OVERNIGHT IN THESE FOUR BY SIX FOOT ROOM.

THE COURT: I SEE.

MR. KROFT: IT IS STILL ONLY BEING MADE AVAILABLE FOR VIEWING OF THAT PICTURE.

THE COURT: BUT THE PURPOSE, THE PURPOSE, IS TO HAVE A PERSON SEE THE PICTURE JUST LIKE I GO TO THE MOVIES.

MR. KROFT: YOUR HONOR, I DON'T THINK THAT IS QUITE RIGHT, AND HERE IS WHY I DON'T THINK IT IS QUITE RIGHT.

THE PURPOSE OF HAVING A PERSON COME TO LA MANCHA [21] IS TO STAY AT LA MANCHA, AND THE PURPOSE OF THAT VIEWING ROOM IS TO FURNISH TO THE GUESTS OF LA MANCHA, WHO HAS HIS PRIVATE

ROOM, VILLA, THE OPPORTUNITY TO SEE MOTION PICTURES. AND IT IS ACCOMPLISHED IN THIS HYPOTHETICAL BY PLACING A DISC PLAYER IN THIS VIEWING ROOM.

NOW THE VIEWING ROOM HAS BECOME VERY COMFORTABLE, BUT IT IS NOT OVERNIGHT HOTEL ROOM; IT IS JUST A VIEWING ROOM. BUT HE IS THERE NOT FOR THE PURPOSE OF SEEING FILMS, BUT HE IS THERE FOR THE PURPOSE OF PATRONIZING THIS COMMERCIAL ESTABLISHMENT. HE BEING A GUEST.

YOUR HONOR, I JUST DON'T BELIEVE—I BELIEVE THIS IS CORRECT TO THE BOTTOM OF MY BONES—THAT IF IT MAKES ANY DIFFERENCE WHETHER THE DISC PLAYER IS KEPT IN THAT VIEWING ROOM OR INSTEAD FOR CONVENIENCE STAKE OF PEOPLE RUNNING LA MANCHA, THEY INSTEAD DECIDE TO TAKE THAT DISC PLAYER AND MOVE IT FORM THAT COMFORTABLE VIEWING ROOM THAT IS NOT USED FOR OVERNIGHT SLEEPING INTO THE VILLA.

AND THE REASON FOR THAT, YOUR HONOR IS THIS: THEY ARE ACCOMPLISHING EXACTLY THE VERY SAME END RESULTS, WHETHER THE DISC PLAYER IS IN THE HOTEL ROOM OR IN THAT PRIVATE VIEWING ROOM. THEY ARE RENTING WITHOUT AUTHORITY COPIES OF OUR MOTION PICTURES FOR VIEWING BY ANY MEMBER OF THE PUBLIC WHO WISHES TO STAY AT LA MANCHA AND WATCH OUR MOTION PICTURES WHILE THEY ARE THERE. AND THE ECONOMICS [22] OF THIS THING, YOUR HONOR, CANNOT BE IGNORED. THEY ARE EXACTLY THE SAME.

THE COURT: IF THERE WERE A WARRANT OUT FOR MY ARREST. AND THE SHERIFF FOUND ME IN THE LOBBY OF THE LA MANCHA HOTEL, HE COULD SERVE THAT WARRANT OF ARREST COULDN'T HE?

MR. KROFT: I BELIEVE SO.

THE COURT: AND IF I THERE WERE IN A THEATER ADJACENT TO THE LOBBY, I COULD BE POINTED OUT

BY THE USHER AND HE COULD ARREST ME THERE TOO.

MR. KROFT: YES, YOUR HONOR.

THE COURT: AND IF YOU PUT A WALL AROUND THE BIG PRIVATE CUBICALS IN THAT THEATER, HE COULD ARREST ME THERE TOO, COULDN'T HE?

MR. KROFT: YOUR HONOR, I HAVE TO STOP YOU FROM WHERE YOU ARE GOING BECAUSE I AM NOT CRIMINAL LAWYER AND I CAN NOT ANSWER YOUR QUESTION THAT YOU ARE LEADING TO.

THE COURT: AND HE COULD NOT ARREST ME IN MY HOTEL ROOM WITHOUT A SEARCH WARRANT; HE COULDN'T COME IN. HE COULDN'T BUST IN. THAT IS MY CASTLE FOR THE NIGHT.

MR. KROFT: DOESN'T IT, YOUR HONOR, DEPEND ON WHAT YOU ARE DOING IN THAT ROOM?

THE COURT: OH, NO, IT DOESN'T. IF I AM RAPING SOMEBODY AND THERE ARE LOUD SCREAMS, WHY, OF COURSE, THERE MIGHT BE A QUESTION, BUT NO.

[23] I JUST DON'T SEE IT, MR. KROFT. IT SEEMS TO ME THAT MY HOTEL ROOM THAT I HAVE RENTED FOR A NIGHT, OR FOR A WEEK, OR FOR A YEAR. AS I SAY, LOTS OF PEOPLE WILL RENT A HOTEL ROOM FOR A YEAR OR MORE AND LIVE THERE. THIS IS MY CASTLE AND WHAT GOES ON IN THERE IS NOT PUBLIC.

MR. KROFT: YOUR HONOR, THERE IS ANOTHER WAY OF GETTING ABOUT THIS. AND I FEEL SO STRONGLY ABOUT THE CORRECTNESS OF MY CLIENT'S POSITION, I WOULD LIKE THE COURT TO INDULGE ME, IF YOU WILL.

THE STATUTE DOESN'T NECESSARILY—AND I DON'T AGREE WITH YOUR HONOR AND I WANT IT TO BE TAKEN AS IS GIVEN WITH THIS POSSIBILITY. LET ME START OUT BY SAYING THAT WE MUST REMEMBER THAT WHAT WE HAVE IS A COMMERCIAL VENTURE FOR PROFIT.

THE COURT: SURE. EVERY HOTEL IS.

MR. KROFT: OF COURSE. BUT THEY ARE NOT JUST A HOTEL, THEY ARE ALSO RENTING OUR FILMS AT THAT HOTEL.

THE COURT: BUT SO IS MY 300-UNIT APARTMENT.

MR. KROFT: BUT THEY ARE ALSO NOT RENTING TAPES AND DISCS FOR VIEWING.

THE COURT: OH, I MIGHT BE.

MR. KROFT: LET ME START OUT WITH THAT AT THE BEGINNING:

THE STATUTE SAYS A PLACE OPEN TO THE PUBLIC. I THINK WHAT WE HAVE ACKNOWLEDGED BETWEEN THE TWO OF US HERE [24] IS THAT WHETHER THE PLACE IS OPEN TO THE PUBLIC DEPENDS ON THE INTENT AND THE CONDUCT OF THE PERSON WHO HAS CONTROL OVER THAT PLACE.

THE COURT: SURE.

MR. KROFT: I DO NOT THINK IT IS INCONSISTENT WITH THE STATUTE, YOUR HONOR. IF THE COURT DOESN'T AGREE WITH ME—AND I BELIEVE THE COURT WOULD BE INCORRECT—BUT IF THE COURT DID NOT AGREE WITH ME THAT THAT WAS NOT A PLACE OPEN TO THE PUBLIC, SO FAR AS THE GUESTS WERE CONCERNED, IT NONETHELESS HOLDS THAT IT IS A PLACE OPEN TO THE PUBLIC SO FAR AS THE HOTEL, PEOPLE OPERATING THE HOTEL IS CONCERNED FOR THIS REASON: EVEN THROUGH IT MAY BE SO THAT THE GUEST IN THAT ROOM, IN HIS DETERMINATION, IS NOT MAKING IT AVAILABLE FOR ANYBODY ELSE TO COME INTO THERE, THE INTENT OF THE HOTEL IS TO MAKE IT AVAILABLE TO ANY NUMBER OF PEOPLE WHO GET IN THERE AS FAST AS THEY CAN GET THEM THERE, AS SOON AS THAT GUEST LEAVES. THEY ARE ADVERTISING IT TO THE PUBLIC. THEY ARE TAKING RESERVATIONS BY MEMBERS OF THE PUBLIC TO STAY IN THAT ROOM, THEY ARE MAINTAINING IT, AND SERVICING IT,

NOT ONLY FOR THE BENEFIT OF THE PERSON THAT IS OCCUPYING THE ROOM, BUT ALSO FOR EVERY OTHER MEMBER OF THE PUBLIC THAT MIGHT COME INTO IT.

THE COURT: AND I OWN A HOTEL AND YOU ARE MY PRIZE GUEST BECAUSE YOU STAY THERE YEAR AFTER YEAR—AND [25] THERE ARE LOTS OF PEOPLE WHO LIVE PERMANENTLY IN HOTELS. NOBODY ELSE—I DON'T LET ANYBODY ELSE IN. SURE, IF YOU GET OUT, I AM GOING TO BRING SOMEBODY ELSE IN AS FAST AS I CAN IN EXACTLY IN THE SAME MANNER THAT AN OWNER OF AN APARTMENT HOUSE IS GOING TO GET SOMEBODY ELSE IN THE APARTMENT AS SOON AS YOU VACATE IT AS FAST AS YOU CAN, BUT THE APARTMENT IS NOT OPEN TO THE PUBLIC ANYMORE THAN THE HOTEL ROOM.

MR. KROFT: THAT PART I DISAGREE WITH YOU.

THE COURT: I THINK I UNDERSTAND YOUR POINT, MR. KROFT. I DON'T AGREE WITH IT.

IS THE COURT'S ANALYSIS FAULTY? ARE YOU SATISFIED WITH THE DECISION OF THE COURT THAT I AM ABOUT TO MAKE ON THE BASIS THAT I INDICATED?

MR. KING: YES, WE ARE, YOUR HONOR.

THE COURT: ALL RIGHT.

THE SUMMARY JUDGMENT WILL BE GRANTED TO THE DEFENDANT FOR THE REASONS THAT I STATED: NAMELY, THAT A VIEWING IN A HOTEL ROOM IS NOT OPEN TO THE PUBLIC AND, THEREFORE, TAPES SHOWN IN A HOTEL ROOM ARE NOT VIEWED BY THE PUBLIC.

WOULD YOU PREPARED APPROPRIATE FINDINGS AND CONCLUSIONS AND I WILL SIGN IT.

MR. KING: WE WILL, YOUR HONOR.

MR. KROFT: MAY WE BE SERVED WITH THOSE, YOUR [26] HONOR.

THE COURT: OF COURSE. AND YOU MAY HAVE FIVE DAYS TO OBJECT.

MR. KROFT: MAY I REQUEST TEN DAYS.

THE COURT: SURE.

(PROCEEDINGS CONCLUDED.)

(I, DELIA C. ROTUNNO, CERTIFY THAT THE FORE-
GOING IS A CORRECT TRANSCRIPT FROM THE RECORD
OF PROCEEDINGS IN THE ABOVE-ENTITLED MATTER.)

OFFICIAL REPORTER #2171

DATE: _____

MAY 14 1992

IN THE
Supreme Court of the United States
OCTOBER TERM, 1992

PROFESSIONAL REAL ESTATE INVESTORS, INC.,
and KENNETH F. IRWIN,
Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,
EMBASSY PICTURES,
PARAMOUNT PICTURES CORPORATION,
TWENTIETH CENTURY-FOX FILM CORPORATION,
UNIVERSAL CITY STUDIOS, INC.,
WALT DISNEY PRODUCTIONS,
WARNER BROS., INC., and
CBS, INC.,
Respondents.

**On Writ Of Certiorari To The United States Court of
Appeals For The Ninth Circuit**

**JOINT APPENDIX
VOLUME II OF II**

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TABLE OF CONTENTS

	J.A. Page
Relevant Docket Entries	1
Complaint, filed April 25, 1983	3
Answer to Complaint by Defendants Professional Real Estate Investors, Inc., dba La Mancha Private Club & Villas and Kenneth F. Irwin, Counterclaim, and Jury Demand, filed Febru- ary 9, 1984	32
Reply to Counterclaim by Plaintiff and Counter- defendant Columbia Pictures Ind., Inc., filed August 24, 1984	50
Reply to Counterclaim by Plaintiff and Counter- defendant Universal City Studios, Inc., filed August 28, 1984	54
Notice of Motion to Compel Plaintiffs and Coun- terdefendants to Produce Documents and for Expenses and Attorneys' Fees; Memorandum in Support; Declaration of Non-compliance, filed August 13, 1985	58
Minute Order: Court grants Defendants' Motion for Summary Judgment; Court allows 10 days for Plaintiffs to object to Proposed Order, filed December 16, 1985	94
Judgment, filed January 22, 1986	95
Notice of Motion and Motion to Compel Counter- defendants to Produce Documents and for Ex- penses and Attorneys' Fees, filed March 3, 1986	97
Stipulation and Order, filed May 24, 1983	99
Stipulation and Order, filed June 29, 1983	101
Stipulation and Order, filed August 2, 1983	103
Stipulation and Order, filed September 22, 1983 ..	105
Stipulation and Order, filed November 28, 1983 ...	107
Stipulation and Order, filed January 3, 1984	109

Stipulation and Order, filed January 26, 1984	111
Stipulation and Order, filed August 24, 1984	113
Joint Report of Early Meeting, filed January 11, 1985	115
Notice of Motion for Sanctions; Memorandum and Declarations in Support, filed August 9, 1985	118
Plaintiffs' Memorandum in Opposition to Defendants' Motion to Compel, filed August 26, 1985	148
Plaintiffs' Memorandum in Opposition to Defendants' Motion for Sanctions, filed August 26, 1985	169
Declarations of Dorothy Wolpert, Joel E. Boxer and Robert J. Rose in Support of Plaintiffs' Memorandum in Opposition to Defendants' Motion to Compel, filed August 26, 1985	175
Defendants' Reply Memo with regard to their Motion for Sanctions, filed August 30, 1985	192
Notice of Motion and Motion for Summary Judgment and Permanent Injunction; Memorandum of Points and Authorities in Support, filed September 30, 1985	215
Defendants' Statement of Genuine Issues of Material Fact in Opposition to Plaintiffs' Motion for Summary Judgment and in Support of Defendants' Cross-Motion, filed October 21, 1985	243
Notice of Defendants' Cross-Motion for Summary Judgment and Memorandum in Opposition to Plaintiffs' Motion for Summary Judgment and in Support of Defendants' Cross-Motion; Proposed Statement of Uncontroverted Facts and Conclusions of Law, filed October 21, 1985 ...	248
Reply Memorandum of Points and Authorities in Support of Plaintiffs' Motion for Summary Judgment and in Opposition to Cross-Motion; Declarations of Stephen A. Kroft, Maren Christensen and Tracy A. Devlin, filed November 12, 1985	283

Statement of Genuine Issues of Material Fact in Opposition to Defendants' Cross-Motion for Summary Judgment, filed November 25, 1985	311
Reply Memorandum of Defendants and Counterclaimants, filed November 25, 1985	313
Second Declaration of Maren Christensen, filed December 9, 1985	333
Reporter's Transcript of Proceedings, filed December 16, 1985	337
Findings of Fact, Conclusions of Law and Order, filed January 14, 1986	357
Notice of Motion and Motion for an Order Staying Proceedings on Counterclaims Pending Resolution of the Appeal, filed February 26, 1986	368
Declaration of Non-Compliance in Support of Motion to Compel Production of Documents, filed March 3, 1986	377
Memorandum of Points and Authorities in Opposition to Defendants' and Counterclaimants' Motion to Compel Production of Documents and for Expenses and Attorneys Fees, and Declaration, filed March 14, 1986	384
Declarations of Maren Christensen, Bernard R. Sorokin and Ben Tenn in Opposition to Defendants' and Counterclaimants' Motion to Compel Production of Documents and for Expenses and Attorneys' Fees, filed March 14, 1986	415
Memorandum in Opposition to Plaintiffs' Motion for a Stay, filed March 14, 1986	426
Reply Memorandum in Support of Motion to Compel Production of Documents and for Expenses and Attorneys' Fees, and Declaration, filed March 18, 1986	441
Minute Order, filed March 24, 1986	489
Notice of Hearing, filed March 3, 1989	491
Minute Order, filed March 22, 1989	493

Minute Order, filed April 6, 1989	495
Request and Order Setting Rule 16 Conference of 4/17/89, filed April 6, 1989	497
Minute Order; Rule 16 Conference Held, filed April 17, 1989	505
Scheduling Order setting Discovery Cutoff of 2/28/ 90; Law Motion Cutoff of 4/15/90, filed April 17, 1989	523
Notice of Taking Depositions of Spectradyne, Inc., filed September 13, 1989	527
Notice of Taking Depositions of Motion Picture As- sociation of America, Inc., filed September 13, 1989	530
Notice of Taking Depositions of RCA Columbia Pic- tures, filed September 13, 1989	532
Notice of Hearing on Plaintiffs' Motion for Sum- mary Judgment, filed September 25, 1989	535
Notice of Lodging of Copy of Hearing Transcript, filed September 27, 1989	537
Spectradyne's Objection to Deposition Subpoena Pursuant to F.R.C.P. 45(d)(1), filed September 29, 1989	539
Stipulation and Order re: Briefing Schedule and Hearing Date for Counter-Defendants' Motion for Summary Judgment, filed October 31, 1989	542
Counterclaimants' Memorandum in Opposition to Counterdefendants' Motion for Summary Judg- ment, filed November 8, 1989	544
Declaration of Kenneth F. Irwin, filed November 13, 1989	566
Declaration of Patrick J. Coyne, filed December 1, 1989	569
Counterclaimants' Statement of Genuine Issues of Material Fact, filed November 13, 1989	572
Reply Memorandum in Support of Plaintiffs' Motion for Summary Judgment, filed December 11, 1989	578

Declaration of James L. Seal, filed December 11, 1989	609
Plaintiffs' Evidentiary Objections to Declaration of Kenneth F. Irwin, filed December 11, 1989 ..	616
Minute Order, filed December 18, 1989	619
Receipt of Reporter Transcript; Reporter Tran- script of Hearing of 12/18/89, filed January 5, 1990	639
Post-Hearing Memorandum in Support of Motion for Summary Judgment, filed January 29, 1990	662
Post-Argument Reply Memorandum in Opposition to Summary Judgment, filed February 12, 1990	671
Memorandum of Decision, filed March 2, 1990	683
Summary Judgment in favor of Plaintiffs on Coun- terclaim, filed March 2, 1990	686
Objections to Summary Judgment Order Proposed by Plaintiffs and Counterdefendants, filed March 16, 1990	689
Amended Summary Judgment in favor of Plaintiffs on Counterclaim; Order, filed April 6, 1990 ..	694
Notice of Entry of Stipulation and Order re: Amended Judgment, filed April 13, 1990	697
Motion to Strike Portions of Appendix to First Cross-Appeal Brief, filed November 8, 1990 ..	698
Memorandum in Opposition to Appellees' Motion to Strike Portions of Appendix to First Cross- Appeal Brief, filed November 19, 1990	704
Reply Memorandum in Support of Motion to Strike, filed November 28, 1990	714
Supplemental Memorandum in Opposition to Motion to Strike, filed December 10, 1990	717

JA-357

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED

JAN 14 1986

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY**

**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND
ORDER**

This is a civil action brought by eight movie studios alleging copyright infringement. Plaintiffs content in their complaint that defendants operate a resort facility and violate plaintiffs' copyrights to certain motion pictures by renting videodiscs of those motion pictures to the guests who stay at the resort for viewing on videodisc players placed by defendants' in the guest rooms for them. The central issue raised by the complaint is whether guests at the resort are "publicly performing" the videodiscs when

they view the videodiscs in the privacy of the rooms they have rented.

The defendants filed an answer, which denied any wrongdoing, and filed counterclaims essentially alleging antitrust violations under the federal and state laws and unfair competition. Defendants' counterclaims were not at issue in the present motions.

The parties have filed cross summary judgment motions concerning the plaintiffs' copyright infringement claim. The parties have thoroughly briefed the infringement issue and a hearing on the cross-motions was held on December 16, 1985. Plaintiffs' claim of copyright infringement fails as a matter of law. The hotel rooms involved in this action are not public places under the copyright law. The findings of fact and conclusions of law, which form the basis of this opinion, are provided below.

FINDINGS OF FACT

A. Parties

1. The plaintiffs are eight movie studios that claim to own the copyrights in the motion pictures alleged to have been infringed. Plaintiffs are Columbia Pictures, Inc., a Delaware corporation; Embassy Pictures, a joint venture organized under the laws of the State of California between Lear Productions, Inc. and Perenchio Pictures, Inc.; Paramount Pictures Corporation, a Delaware corporation; Twentieth Century-Fox Film Corporation, a Delaware corporation; Universal City Studios, Inc., a Delaware corporation; Walt Disney Productions, a California corporation; Warner Brothers, Inc., a Delaware corporation; and CBS, Inc., a New York corporation.

2. Defendants are Professional Real Estate Investors, Inc., a California corporation, and its principal owner and chief operating officer, Kenneth F. Irwin. As pertinent to this case, Professional Real Estate Investors, Inc. operates

a resort known as La Mancha Private Club and Villas, located at 444 North Avenida Caballeros, Palm Springs, California. Mr. Irwin, a resident of the State of California, is a principal shareholder, director and chief operating officer of Professional Real Estate Investors, Inc. Mr. Irwin, in his capacity with Professional Real Estate Investors, Inc., serves as the chief operating officer and manager of the La Mancha resort.

3. The complaint also names as a defendant Erland Kyllonen. Mr. Kyllonen does not appear to have been served with the complaint, has not answered the complaint, and has never made an appearance in this matter.

B. Jurisdiction and Venue

4. This action arises under the copyright laws of the United States. 17 U.S.C. § 101, et seq. (1982). This court has subject matter jurisdiction over this action pursuant to Section 1338(a) of Title 28 of the United States Codes, and venue lies in this district under Section 1400(a) of Title 28 of the United States Codes. 28 U.S.C. §§ 1338(a), 1400(a) (1982).

C. The Copyrights at Issue

5. Plaintiffs alleged in their complaint infringement of 74 motion pictures for which plaintiffs own the copyrights. Defendants rented copies of 49 for viewing by their guests in their hotel room. In their summary judgment motion, plaintiffs omitted nine of the copyrighted motion pictures named in the complaint because they had no proof that they had in fact been infringed. As a result of disputes over ownership raised by defendants, plaintiffs withdrew their claim for eight more of the alleged copyrighted motion pictures. Defendants claim that plaintiffs had also failed to show that they owned the copyrights for at least eight more of these 74 motion pictures. In light of my decision today, the issue need not be addressed.

D. The Allegations of Copyright Infringement

6. The defendants operate the La Mancha resort in Palm Springs, California. The resort rent 50 units that it refers to as guest villas" and which are available in one, two or three bedroom floor plans. Each villa has its own kitchen, living room, bath, patio and most have private swimming pools.

7. There is a dispute as to whether La Mancha is a private club or a hotel. This issue does not have to be reached in light of my decision. Without deciding the issue or prejudicing the parties' arguments concerning this issue, I will consider the La Mancha resort a hotel for the purposes of this decision.

"7A. Defendants' resort, including its guest accommodations, is unquestionably open to the public. Indeed, defendants advertise La Mancha nationwide as a 'destination resort', offer group rates and offer the La Mancha villas by the night. Moreover, to stay at La Mancha, one need only call the hotel and reserve a room or make a reservation through a travel agent. No proof of membership in the 'club' is required for such a reservation. Nor is any such proof of membership required of a guest registering at La Mancha. Upon registering, La Mancha's front desk personnel request only a credit card and driver's license.

7B. To attract members of the general public, defendants have advertised La Mancha in several prominent national and regional publications such as The New Yorker Magazine, Forbes Magazine, Los Angeles Times, Chicago Tribune, Los Angeles Magazine, San Diego Magazine and Travel & Leisure. In addition, Irwin has prepared and distributed press releases and brochures to inform the public about La Mancha."

8. Commencing in late 1981, defendants purchased videodisc players and over the course of the next few months installed them in each rental unit. One disc player is also located in the gift shop for demonstration use only. None of the videodisc players is or was located in common areas such as the lobby or restaurant of the defendants' resort. There is no allegation or proof that the defendants ever showed movies in any of common areas at the resort.

9. Defendants purchased an inventory of videodisc movies from RCA corporation. RCA is a licensed manufacturer and distributor of the copyrighted movies contained on the videodiscs. Plaintiffs do not contend that defendants had obtained, rented or sold any illegal or pirated copies of the motion pictures. The videodiscs at issue were all lawfully obtained and are authorized and lawful copies of plaintiffs' motion pictures. There is also no claim that defendants retransmitted by way of cable or other means any videodisc movies to any of the rental units at their resort.

10. Guests at defendants' resort could, for a fee ranging from \$5.00 to \$7.50 rent the videodiscs, take them back to their accommodations, and watch the movie on the televisions sets and videodisc players furnished in each unit. Guests at defendants' resort could watch a rented video movie at any time and could rent as many videodisc movies as desired. The videodisc rental fee would be included on the guests' bill. Defendants advertise the availability of these discs.

11. In the fall of 1982, plaintiffs' counsel sent a letter to defendant protesting their rental of videodiscs to guests staying at defendants' resort. After an exchange of correspondence, plaintiffs filed their copyright infringement claim on April, 25, 1983.

12. Any conclusion of law stated below, to the extent that it constitutes a finding of fact, is herein incorporated by reference as an additional finding of fact.

CONCLUSIONS OF LAW

A. Issues

1. The issue raised by the complaint is one of the first impressions—whether guests at a hotel or similar accommodations are “publicly performing” the videodiscs when they view the videos in the rooms that they have rented. Plaintiffs argue that a hotel, even including its private bedroom accommodations are “a place open to the public” under the copyright law, and that viewing copyrighted motion pictures on video equipment in the hotel room or similar accommodation would constitute a public performance under the copyright law.

2. Defendants argue that hotel rooms have traditionally been considered private and, therefore, would not be public places under the copyright law. Defendants contend that the purpose of renting a hotel room is to obtain short-term living accommodation while one is away from home, and not to view motion pictures. I conclude that the viewing of a motion picture in a hotel room is not different from viewing movies in a private home, which is admittedly a private use and not a public performance under the copyright law.

3. There is no issue but that the defendants have the right to rent videodisc movies. Under the first sale doctrine, any person who purchases or obtains a legitimate copy may “without authority of the copyright owner...sell or otherwise dispose of the possession of that copy...” 17 U.S.C. § 109(a); *accord, United States v. Moore*, 604 F.2d 1228, 1232 (9th Cir. 1979). In enacting the copyright law, Congress expressly stated that “the person to whom the copy... is transferred is entitled to dispose of it by sale, rental, or any other means.” H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79, *reprinted in*, 1976 U.S. Code Cong. & Ad. News 5659, 5693. The law allows the copyright owner to set and collect a royalty when he first sells each copy of the work. Additional royalties on sub-

sequent sales or rentals are not required under the copyright law. Defendants purchased authorized copies of the videodiscs for which plaintiffs were paid a royalty on that sale. Accordingly, defendants obtained the right to rent the videodiscs at issue, so long as they do so not for the purpose of unauthorized public performance.

4. Defendants have raised six counterclaims which principally allege various antitrust and unfair competition practices. The validity of these claims was not raised in the summary judgment motions.

5. Defendants also raised a number of factual issues which they allege would preclude plaintiffs’ summary judgment. Inasmuch as I am denying plaintiffs’ summary judgment motion, these issues need not be addressed.

6. There is also no claim that defendants performed the video movies in any of the common areas of its resort. Plaintiffs also do not claim that defendants played a video movie and retransmitted it through a cable or similar system to each of the rented units. Rather, the sole issue to be decided is whether a hotel room in the defendant’s facility is “a place open to the public” under the copyright law and whether the viewing of video movies in such accommodation is public performance.

B. A Place Open to the Public Under the Copyright Laws

7. Under the copyright law, a movie is publicly performed if viewed either “at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances gathered...” 17 U.S.C. § 101 (1982). The record indicates that the movie viewed in the accommodations at defendants’ resort are limited to “a normal circle of a family and its social acquaintances.” As a result, in order for plaintiffs to prevail, the rental units at defendants’ resort must be considered “a place open to the public”

8. The two parts of the definition of public performance are disjunctive. Public performance does not require both a place open to the public and a public audience. The normal composition of the audience, however, does help to determine whether a place is public. See, 2 *Nimmer on Copyright* § 8.18 [C][1][d] (1985). Places in which normally only a family and its social acquaintances gather is a strong indicator that the place is not open to the public.

9. Private places and private uses of video movies are not limited to homes. Congress in enacting the copyright law identified clubs, lodges, factories, summer camps, schools and business and governmental offices all as places where viewing movies would not be considered a public performance. H.R. Rep. No. 1476, 94th Cong. 2d Sess. 54, reprinted in, 1976 U.S. Code & Cong. & Admin. News 5659, 5677-78.

C. Private Nature of Hotel Rooms

10. In order for plaintiffs to prevail, it is necessary to rule, at a minimum, that all hotel rooms are public places under the copyright laws. Hotel rooms, however, have traditionally been considered private places under other laws. A hotel room is subject to the Fourth Amendment protection under the United States Constitution because guests at hotels have a reasonable expectation of privacy while they are in their rented room. *Hoffa v. United States*, 385 U.S. 293, 301, 87 S. Ct. 408 (1966).

11. Similarly, it is also well established under the common law that a guest at a hotel has a right of privacy to the peaceful enjoyment of the accommodation. *People v. Vaughn*, 65 Cal.App.2d 84, 150 P.2d 964, 976-68 (1944). In fact, an innkeeper is liable for damages if he or his employees unjustifiably enter the guest's room. *Frewen v. Page*, 280 Mass. 499, 131 N.E. 475 (1921). Although not binding, these rules provide guidance on the private nature of hotel rooms.

12. When occupied, a hotel room is private and the occupant expects and is entitled to such privacy. The purpose of renting a hotel room is to obtain living accommodations whether short-term or long-term. In this respect, hotel rooms are no different from private homes. Similarly, viewing movies in a hotel room would be an incidental form of entertainment, and is no different from viewing movies in a home. Home use of videos is admittedly a private and not a public performance.

13. For these reasons, a hotel room is not a place open to the public under the copyright laws and the viewing of video movies in such accommodations is not a public performance under the copyright laws. See 2 *Nimmer on Copyright* § 8.18[C][1][d] (1985).

D. Redd Horne and Aveco Cases

14. This decision is not contrary to the recent decisions in the Third Circuit in *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 568 F. Supp. 494 (W.D. Pa. 1983), *aff'd*, 749 F.2d 154 (3d Cir. 1984) and *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F. Supp. 315 (M.D. Pa. 1985). The defendants in both those cases operated video stores in which they set up small rooms in the back for the purpose of viewing movies. For a fee, customers could rent the video movies and view them in these small viewing rooms. The courts in those cases considered those viewing rooms to be mini-movie theaters and thus, like a movie theater, public places. As a result, viewing movies in these public mini-theaters was a public performance.

15. The principal and sole purpose of the viewing rooms in the *Redd Horne* and *Aveco* cases was to watch movies. In contrast, a hotel is a place to live while away from one's permanent home. The primary or even a principal reason of renting a hotel room is not to view movies. At best, the viewing of movies in a hotel room is incidental entertainment, no different from viewing movies in the privacy of one's home.

E. Conclusion

16. The plaintiffs, as a matter of law, cannot prevail on their copyright claims in this case. Hotel rooms, and thus the units rented at defendants' resort, are not places open to the public under the copyright law, and viewing copyrighted motion pictures on video equipment in a hotel room is not public performance under the copyright law.

17. Defendants are therefore entitled to summary judgment on these copyright issues. There are no genuine issues of material fact which would preclude entry of such a judgment in favor of the defendants.

18. Any finding of fact stated above, to the extent that it constitutes a conclusion of law, is hereby incorporated by reference as an additional conclusion of law.

ORDER

1. Upon consideration of the cross-motions for summary judgment, the briefs filed with regard to those motions, and the argument of counsel, the court has determined that there is no genuine issue of material fact which precludes summary judgment for the defendants on the issues raised in the complaint and that the defendants are entitled to summary judgment on these issues as a matter of law pursuant to Fed. R. Civ. P. 56(a).

2. It is hereby ordered, adjudicated, and decreed that the rental by defendants of videodiscs of plaintiffs' copyrighted films to members and guests at defendants' resort for the purpose of permitting them to view those motion pictures in the units they have rented does not violate plaintiffs' exclusive rights under Section 106 of the copyright law (17 U.S.C. § 106) to perform publicly and to authorize the public performance of such motion pictures.

3. The claims raised in plaintiffs' complaint are, therefore, dismissed and final judgment shall be entered in favor

of defendants on these claims. Plaintiff's motion for Summary Judgment and Permanent Injunction is denied.

4. Plaintiffs shall pay the defendants' cost incurred in defending this action.

5. The clerk shall enter a judgment in accordance herewith as a final judgment pursuant to Fed. R. Civ. P. 54(b), the court expressly determining that there is no just reason for delay.

These findings and *conclusions*, although prepared by counsel, are in substantial complete accord with the opinion and decision that I rendered orally at the conclusion of the hearing on the cross motions.

Dated: JAN 13 1986

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,
vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.
AND RELATED COUNTERCLAIMS

PLAINTIFFS' AND COUNTERDEFENDANTS' NOTICE
OF MOTION AND MOTION FOR AN ORDER STAYING
PROCEEDINGS ON COUNTERCLAIMS PENDING
RESOLUTION OF THE APPEAL; MEMORANDUM OF
POINTS AND AUTHORITIES

Hearing Date: March 24, 1986
Time: 10:00 A.M.
Courtroom No.: 23

TO DEFENDANTS AND COUNTERCLAIMANTS AND TO
THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that on March 24, 1986 at 10:00 A.M., or as soon thereafter as the matter can be heard, plaintiffs and counterdefendants will move the Court, in the courtroom of the Honorable William P. Gray, United States District Judge, located at the United States Court-house, 312 North Spring Street, Los Angeles, California, and plaintiffs and counterdefendants do hereby move the Court, for an order staying all proceedings on the counterclaims pending resolution of the appeal of the Court's grant of summary judgment in favor of defendants.

This motion is based on the following grounds:

1. If the proceedings are stayed pending resolution of the appeal, it will expedite determination of defendants' allegation that plaintiffs' lawsuit was a sham, since the lawsuit could not have been a sham if plaintiffs are successful on appeal. Alternatively, if the defendants' motion for summary judgment is affirmed, the Court of Appeals opinion may give guidance on the issue of whether the plaintiffs' legal claims were worthy of litigation.

This motion will be based upon this Notice of Motion, Memorandum of Points and Authorities, and upon all of the pleadings, records and papers on file herein.

DATED: February 26, 1986

Respectfully submitted,

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
MAREN CHRISTENSEN
DIANA J. SIMON

By Diana J. Simon
DIANA J. SIMON
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[Table of Contents omitted in this printing]

MEMORANDUM OF POINTS AND AUTHORITIES

I.

BACKGROUND

By this motion, plaintiffs seek the assistance of the Court to impose rationality into the pending proceedings on defendants' counterclaims. Briefly, plaintiffs contend that a just, economical, and efficient resolution of defendants' claims will be promoted if all proceedings are stayed pending appeal.

This action commenced when plaintiffs sued the defendants for infringement of plaintiffs' exclusive rights under the Copyright Act to publicly perform and to authorize the public performance of 65 copyrighted motion pictures owned and/or controlled by them. Defendants answered and counterclaimed for violations of Sections 1 and 2 of the Sherman Act, violation of the Cartwright Act, Unfair Competition, and Breach of the Covenant of Good Faith and Fair Dealing. The crux of defendants' counterclaim is that plaintiffs filed this lawsuit.

Plaintiffs moved for summary judgment on their copyright claim on the ground that the exhibitions of plaintiffs' video discs in defendants' guest villas constituted public performances in violation of § 106(4) of the Copyright Act. Defendants cross-moved for summary judgment on the ground that these same exhibitions did not constitute public performances in violation of the Copyright Act. This Court granted defendants' motion and denied plaintiffs' motion. Plaintiffs have appealed this ruling. For the reasons discussed below, this Court should order a stay of proceedings pending resolution of this appeal.

II.

THE COURT IS FULLY EMPOWERED TO STAY THESE PROCEEDINGS

This Court is fully empowered to stay proceedings in the interest of saving time and effort for itself and the

litigants. *E.g.*, *Landis v. North American Co.*, 299 U.S. 248, 254-55, 57 S. Ct. 163, 165-66, 81 L.Ed. 153 (1936). *Filtrol Corp. v. Kelleher*, 467 F.2d 242, 244 (9th Cir. 1972), *cert. denied*, 409 U.S. 1110, 93 S.Ct. 914, 34 L.Ed.2d 691 (1973); *Wilcox v. Ho-Wing Sit*, 586 F.Supp. 561, 567 (N.D. Cal. 1984). As the Ninth Circuit recently stated:

[a] trial court may, with propriety, find it is efficient for its own docket and the fairest course for the parties to enter a stay of an action before it, pending resolution of independent proceedings which bear upon the case. This rule applies whether the separate proceedings are judicial, administrative, or arbitral in character, and does not require that the issues in such proceedings are necessarily controlling of the action before the court.

Mediterranean Enterprises, Inc. v. Ssangyong, 708 F.2d 1458, 1465 (9th Cir. 1983), quoting *Leyva v. Certified Grocers of California, Ltd.*, 593 F.2d 857, 863-864 (9th Cir.), *cert. denied*, 444 U.S. 827, 100 S.Ct. 51, 62 L.Ed.2d 34 (1979).

III.

THE GRAVAMEN OF THE COUNTERCLAIMS SHOULD BE RESOLVED BY THE APPEAL

Staying the proceedings pending resolution of the appeal in this case will promote efficiency and fairness to both parties. The gravamen of defendants' counterclaims is that the main action is a sham. In defendants' first, second, and third counterclaims, defendants allege that the primary unlawful activity which plaintiffs have engaged in is "the filing of this suit, which is a sham and false and known by plaintiffs to be so; [and] bad faith prosecution of this suit." Answer to Complaint and Counterclaim, dated February 9, 1984 at 10, ¶ 34, at 12, ¶ 39, at 13, ¶ 45. Moreover, in defendants' fourth, fifth, and sixth counter-

claims, defendants seek damages for expending substantial sums of money to defend against plaintiffs' suit.

The "sham litigation" doctrine is a narrow exception to the "Noerr-Pennington" doctrine which confers broad immunity from liability under the antitrust laws for bona fide attempts to influence legislative, administrative, and judicial bodies. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 92 S.Ct. 609, 30 L.Ed. 2d 642 (1972); *United Mine Workers v. Pennington*, 381 U.S. 657, 85 S.Ct. 1585, 14 L.Ed.2d 626 (1965); and *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 81 S.Ct. 523, 5 L.Ed. 2d 464 (1961).

In *Noerr*, the Supreme Court held that Sherman Act liability could not be predicated on mere attempts to influence the passage or enforcement of laws by the Legislature or the executive, even if that attempt had only an anti-competitive purpose. 365 U.S. at 135-140, 81 S.Ct. at 528-31. However, the *Noerr* Court also stated:

[t]here may be situations in which a publicity campaign, ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified.

Id. at 144, 81 S.Ct. at 533.

In *Pennington*, the Supreme Court held that attempts by coal operators and unions to influence the Secretary of Labor fell under the *Noerr* doctrine, even though such conduct was intended to eliminate competition. 381 U.S. at 669-70, 85 S.Ct. at 1592-93. Finally, in *California Motor Transport*, the Supreme Court applied the *Noerr-Pennington* principles to efforts to influence judicial or administrative agencies, or to file proceedings in the same. Specifically, it was alleged in that case that defendants

filed repetitive and baseless claims for the sole purpose of barring plaintiffs' access to the agencies and the courts. 404 U.S. at 512, 92 S.Ct. at 612. The Court held that such allegations, if proven true, would fall within the "sham litigation" exception to the *Noerr-Pennington* doctrine. Thus, in order to take away the cloak of antitrust liability immunity given the bona fide filing of lawsuits, defendants must show that plaintiffs' lawsuit was a sham.

If plaintiffs are successful on appeal, it follows conclusively that plaintiffs' lawsuit was *not* a sham. See, e.g., *Mid-Texas Communications Systems, Inc. v. Amer. Tel. & Tel. Co.*, 615 F.2d 1372, 1383 (5th Cir.), *cert. denied*, 449 U.S. 912, 101 S.Ct. 286, 66 L.Ed.2d 140 (1980); *Franchise Realty Interstate Corp. v. San Francisco Local Joint Executive Board of Culinary Workers*, 542 F.2d 1076, 1079 (9th Cir. 1976), *cert. denied*, 430 U.S. 940, 97 S.Ct. 1571, 51 L.Ed.2d 787 (1977). Therefore, the Court should stay the action until resolution of the appeal as a means of simplifying and expediting the determination of whether plaintiffs' complaint was a sham.

A decision involving facts and considerations quite similar to the present case is *Baxter Travenol Laboratories, Inc. v. Le May*, 536 F.Supp. 247 (S.D. Ohio 1982). In *Baxter*, plaintiffs alleged in their complaint that defendants were liable for misappropriation and conversion of trade secrets, breach of contract, and breach of fiduciary duty. Defendants counterclaimed for antitrust law violations under the Sherman and Clayton Acts, for defamation, and for breach of contract. Plaintiffs moved, pursuant to Fed. R. Civ. P. 42(b), to bifurcate the claims by holding a separate trial on the antitrust and other counterclaims *after* a trial on their claims. Defendants contended that the antitrust claims should be tried first.

Plaintiffs in *Baxter* argued that the "sham litigation" component of defendants' counterclaim required that the allegedly "meritless" litigation be tried first, since litiga-

tion can only be considered "baseless" once it is terminated in favor of the party bringing the antitrust action. Defendants argued that litigation can be shown to be "baseless" before, or even without, it being terminated. Ultimately, the Court held that plaintiffs' complaint should go forward first, even though defendants' antitrust counterclaim was not based entirely on the allegedly "sham litigation," "in order to aid in the determination of whether said complaint is baseless." *Id.* at 253. In so doing, the Court explained as follows:

Although most of the recent case law concerning the "sham" exception has not specifically addressed this point, the weight of authority seems to fall on Plaintiffs' side. Analogizing the "sham" exception to the tort of malicious prosecution, many courts, including two within this Circuit, have held that termination of the litigation in favor of the antitrust plaintiff, while not a rigid requirement, is strong evidence, and probably dispositive, of the issue of the allegedly "baseless" nature of the litigation. [Citations omitted.]

Id. at 252.

Therefore, although *Baxter* involved a court's exercise of discretion under Fed. R. Civ. P. 42(b), the court, under factual circumstances similar to those presented here, held that the non-antitrust claims should be allowed to proceed first in order to aid the court in its determination of the "sham" exception. See also *Clipper Express v. Rocky Mountain Motor Tariff*, 690 F.2d 1240, 1254 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227, 103 S.Ct. 1234, 75 L.Ed.2d. 468 (1983) ("while the success or failure of the [lawsuit] is not singularly determinative of a party's intent, this Circuit regards such success as indicative of a party's intent"); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 903 (9th Cir. 1983) ("we can draw no inference [with regard to whether the effort to invoke judicial process was gen-

uine or a mere sham] from the fact that the state court action was still pending when the district court entered judgment. Success or failure might be helpful as one indication of Loral and Conic's intent in bringing the action, . . . but such an indication is not available before the state action is terminated").

In short, if this Court stays the proceedings until resolution of the appeal, and plaintiffs are victorious, defendants' antitrust allegations based on a sham effort to obtain judicial action, should be disposed of. Even assuming, *arguendo*, plaintiffs do not prevail on appeal, the Ninth Circuit's decision will certainly aid this Court in determining whether plaintiffs' claims were bona fide efforts to obtain judicial action.¹

In addition, there is a serious possibility of inconsistent rulings if defendants are allowed to prove at trial a sham lawsuit without benefit of knowledge of the final outcome of plaintiffs' claims on appeal. Consider this scenario: the proceedings are not stayed; defendants prevail at trial on their "sham lawsuit" theory; the court of appeals later reverses the summary judgment in favor of plaintiffs on the copyright infringement claim. Is it not obvious that the "sham lawsuit" claim would have to be re-tried? Certainly, the Court should avoid this inequitable and prejudicial result by staying proceedings temporarily until resolution of the appeal and the allegation that plaintiffs' complaint was baseless.

¹ If plaintiffs are successful on appeal, the "sham" allegation should be disposed of. Of course, the converse is not true, because the Sherman Act does not preclude a good faith attempt to assert or protect a copyright interest, even if unsuccessful. See, e.g., *Classic Film Museum, Inc. v. Warner Bros, Inc.*, 523 F.Supp. 1230, 1234 (D. Me. 1981).

JA-376

V.
CONCLUSION

For the reasons discussed above, plaintiffs respectfully request the Court to enter an order staying all further proceedings in this action pending resolution of the appeal.

DATED: February 26, 1986

Respectfully submitted,
ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
MAREN CHRISTENSEN
DIANA J. SIMON

By Diana J. Simon
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and Counterdefendants

[Certificate of Service omitted in this printing]

JA-377

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

FILED

MAR 3 4:03 PM '86

**U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY**

**DECLARATION OF NON-COMPLIANCE IN SUPPORT OF
MOTION TO COMPEL PRODUCTION OF DOCUMENTS**

Date: March 24, 1986

Time: 10:00 a.m.

Place: Courtroom 23

**DECLARATION OF COUNSEL OF NON-COOPERATION
BY THE OPPOSING PARTY PURSUANT TO LOCAL
RULE 7.15.2**

I, Patrick J. Coyne, declare:

1. I am a member of the bar of the District of Columbia and am associated with the law firm of Collier, Shannon,

Rill & Scott. I have worked with Jeffrey W. King on the defense of the case *Columbia Pictures Industries, Inc., et al. v. Professional Real Estate Investors, Inc., et al.*, No. 82-2594 W.P.G., since the fall of 1984. I have knowledge of the facts set forth below and, if called as a witness at any hearing or trial, would testify to these facts based on my personal knowledge.

2. On January 7, 1985, Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively referred to as "Irwin"), served by mail on counsel for plaintiffs Defendants' and Counterclaimants' Request for Production of Documents, Nos. 1 to 40.

3. The parties did not stipulate and, pursuant to Rule 29 of the Federal Rules of Civil Procedure, an order extending the time to respond to the document request, was not sought by plaintiffs or granted.

4. On February 7, 1985, plaintiffs and counterdefendants served by mail on counsel for Irwin Plaintiffs' Objections to Defendants' Document Request.

5. Pursuant to Local Rule 7.15.1 of the United States District Court for the Central District of California, counsel for Irwin, by letter dated March 1, 1985, requested a meeting of counsel to discuss plaintiffs' objections and failure to respond to the document requests.

6. Despite repeated attempts by Irwin's counsel to schedule the meeting required by Local Rule 7.15.1, counsel for plaintiffs failed to meet with Irwin's counsel within the time required by Local Rule 7.15.1

7. Despite numerous attempts during the months of March, April, May, June, and July, 1985, to secure the production of even those documents to which plaintiffs did not object to production, plaintiffs failed to cooperate in producing the documents or in attempting to reduce or eliminate the discovery disputes.

8. On July 5, 1985, the Honorable William P. Gray, United States District Judge, issued notice to counsel for Irwin and plaintiffs, that a pretrial conference would be held at 10:00 a.m. on September 9, 1985.

9. Plaintiffs' counsel agreed to hold the discovery conference in conjunction with the pretrial meeting of counsel required by the local rules. The meeting of counsel pursuant to Local Rule 7.15.1 was held in Los Angeles California, on July 31, 1985, at the offices of Michael J. Dennis Law Corporation. Plaintiffs counsel was provided Irwin's proposed discovery stipulation at that meeting.

10. The July 31, 1985 meeting of counsel was attended by Jeffrey W. King and Laura J. Barns on behalf of Irwin. Plaintiffs' counsel initially refused to discuss Irwin's discovery requests at the meeting. Plaintiffs' counsel finally agreed to discuss the discovery dispute at that meeting only at the insistence of counsel for Irwin and, even then, imposed a fifteen minute time limit on the discussion after which time plaintiffs' counsel left the meeting.

11. Plaintiffs did not respond to Irwin's proposed discovery stipulation within the time required by Local Rule 7.15.4. Plaintiffs counsel never forwarded to counsel for Irwin any response to the stipulation.

12. Plaintiffs retained new counsel in this action during August, 1985.

13. The parties submitted the issues raised by plaintiffs' complaint to the Court on cross-motions for summary judgment. While plaintiffs produced a limited number of additional documents in support of their claims prior to oral argument on the parties' cross-motions for summary judgment, plaintiffs otherwise refused to produce any additional documents.

14. Counsel for the parties agreed that discovery on Irwin's counterclaims would not be pursued vigorously un-

til after resolution of the parties' cross-motions for summary judgment.

15. The Court heard oral argument on the parties' cross-motions for summary judgment on December 16, 1985. At the conclusion of that hearing, the Court ruled in favor of Irwin. The Court entered judgment on plaintiffs' complaint on January 23, 1986.

16. Following the Court's ruling on December 16, 1985, I repeatedly attempted to contact plaintiffs' counsel regarding the outstanding discovery requests relating to Irwin's counterclaims. In light of the Court's ruling on summary judgment, Irwin pursued only the document requests relating to the counterclaims. On December 31, 1985, I wrote a letter to plaintiffs' counsel requesting that counsel discuss the outstanding discovery requests relating to the counterclaims.

17. On January 3, 1986, I wrote a letter to plaintiffs' counsel requesting a second meeting of counsel pursuant to Local Rule 7.15.1 to attempt to reduce or eliminate the disputes with respect to the counterclaim discovery requests. Plaintiffs' counsel agreed to conduct the discovery conference by telephone.

18. Plaintiffs requested postponement of the conference and the second Local Rule 7.15.1 conference was commenced on January 23, 1986 but was not concluded at that time. During that meeting, both parties presented proposals for narrowing Irwin's document requests. Counsel for the parties agreed during that conference that the meeting would be continued the week of January 27, 1986.

19. I telephoned plaintiffs' counsel repeatedly in an attempt to conclude the Local Rule 7.15.1 conference. I also wrote plaintiffs counsel several letters in an attempt to conclude the conference or to ascertain plaintiffs' position on the discovery disputes. When plaintiffs finally re-

sponded on February 11, 1986, plaintiffs raised for the first time several new restrictions and objections never before raised during the parties' prior discussions of these document requests.

20. Counsel for plaintiffs has stated that plaintiffs would not waive any of their original objections. Plaintiffs have provided no additional information as to why Irwin's proposals for narrowing the requests are objectionable.

21. Counsel for plaintiffs stated on February 12, 1986 that, even were the parties able to reach an agreement on the scope of the document requests, plaintiffs would not produce any documents in response to the document requests at this time.

22. On February 14, 1986, Irwin delivered to plaintiffs' counsel a proposed discovery stipulation pursuant to Local Rule 7.15.1.

22. Although plaintiffs expressed their opinion that the stipulation contained inaccuracies, plaintiffs' counsel refused to provide me any additional information as to suggested changes, modifications, or revisions to the stipulation within the time required by the local rules, in spite of repeated, direct requests by me for such information. I offered on a number of occasions to discuss with plaintiffs' counsel plaintiffs' proposed revisions to the stipulation. Plaintiffs did not sign and return the stipulation, nor did plaintiffs provide Irwin any additional information necessary to prepare the stipulation, by February 26, 1986, as required by Local Rules 7.15.2 and 7.15.4.

23. To date, I have not received from plaintiffs' counsel suggestions for changes to the stipulation, nor have I received plaintiffs' contentions or points and authorities.

I DECLARE, under penalty or perjury, that the foregoing is true and correct and that this declaration was executed this 28th day of February, 1986, in Washington, D.C.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

**ORDER TO COMPEL PLAINTIFFS TO PRODUCE
DOCUMENTS AND TO PAY DEFENDANTS' EXPENSES
AND ATTORNEYS' FEES**

Upon consideration of the Motion to Compel Production of Documents filed by defendants and counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin to compel plaintiffs and counterdefendants Columbia Pictures Industries, Inc., *et al.* to produce all documents requested in defendants' January 7, 1985 Request for Production of Documents, the parties' contentions on the issues, and arguments of counsel, it is hereby

ORDERED that:

(1) Plaintiffs produce the documents requested in defendants' Request for Production of Documents Nos. 1 and 20-39 on or before _____, 1986 at the law offices at Michael J. Dennis Law Corporation, 510 West Sixth Street, Suite 910, Los Angeles, California;

(2) Plaintiffs pay defendants' reasonable expenses and attorneys' fees incurred in connection with this motion and defendants' prior motion to compel; and

(3) Defendants submit to this Court, within 20 days of the date of this Order, an application for its reasonable expenses and attorneys' fees incurred in connection with this motion, the prior motion to compel, and the Rule 7.15.1 meeting of counsel.

Dated: _____

William P. Gray
United States District Judge

Respectfully Submitted,

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW
CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

Dated: March 3, 1986 By: Laura J. Barnes

Jeffrey W. King
Attorneys for Defendants/
Counterclaimants

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIMS

MEMORANDUM OF POINTS AND AUTHORITIES IN
OPPOSITION TO DEFENDANTS' AND
COUNTERCLAIMANTS' MOTION TO COMPEL
PRODUCTION OF DOCUMENTS AND FOR EXPENSES
AND ATTORNEYS' FEES; DECLARATIONS IN SUPPORT
THEREOF

HRG. DATE: March 24, 1986

TIME: 10:00 A.M.

COURTROOM: 23

[Table of Contents omitted in this printing]

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I.

INTRODUCTORY STATEMENT

Defendants have established a pattern of bringing premature and ill-conceived discovery motions. Plaintiffs submit that defendants' only purpose in bringing this motion is to try again to obtain the sanctions denied them by this Court the first time they brought a motion to compel the production of the documents here at issue.

Defendants brought the first motion without even attempting to discuss the discovery issues with plaintiffs' newly retained counsel. This Court did not rule on the first motion, but instructed all counsel to work together to resolve the disputes. Defendants' counsel asked the Court if they could renew their motion for sanctions at a later date. In retrospect, it appears that from that time defendants' have been seeking sanctions, not documents.

In this motion, defendants have enormously exaggerated the dimensions of the remaining disputes and have seriously mischaracterized the role of plaintiffs and their counsel in attempting to resolve them. Defendants would have this Court believe that plaintiffs have refused for a year, and continue to refuse, to produce all but six documents responsive to defendants' document request. Nothing could be further from the truth. Plaintiffs have: (1) already produced almost 900 pages of documents responsive to defendants' requests relating to plaintiffs' copyright claim (as admitted by defendants' production of documents responsive to the antitrust cross-complaint has been held in abeyance by agreement of counsel), and agreed to produce many more as soon as a protective order is entered; (2) diligently attempted to negotiate an acceptable protective order; (3) attempted to negotiate with defendants to narrow what this Court has recognized are overly broad and burdensome requests; (4) agreed to produce documents responsive to all requests as eventually narrowed by defendants, with certain necessary and proper limitations;

and (5) agreed to produce all appropriate documents within a reasonable period of time, should plaintiffs not prevail in their pending motion to stay all proceedings.

When defendants filed this motion to compel, thereby bringing to an abrupt halt the parties' ongoing discovery discussions, plaintiffs had agreed to most of defendants' revised demands. Even the *revised* demands, however, still request the production of tens of thousands of irrelevant documents. Defendants' lawsuit involves only one issue: the rental of videodiscs and tapes by hotels and motels to their guests for in-room viewing. [In fact, defendants' pleadings are limited to the rental of videodiscs by defendants at defendants' hotel.] Even as narrowed, defendants' requests seek the production of all documents in plaintiffs' possession relating to the video industry *as a whole*. In addition, they ask for sensitive communications regarding plaintiffs' litigation and lobbying activities on all issues affecting the video industry. Despite what defendants might like the Court to believe, the discoverability of these documents constitutes the crux of the remaining document disputes between the parties, apart from one open issue regarding a protective order.

II.

FACTUAL BACKGROUND

Defendants are owners of the La Mancha Private Club and Villas, a hotel located in Palm Springs, California. Plaintiffs are eight major motion picture studios. Defendants equip their hotel rooms with videodisc machines and offer their guests the opportunity to rent from defendants videodiscs of plaintiffs' motion pictures. On April 25, 1983, plaintiffs filed a copyright action against defendants alleging that their rental activities constituted the authorization of public performances of plaintiffs' copyrighted works. Defendants counterclaimed, alleging that plaintiffs had violated the Sherman Antitrust Act, pri-

marily by filing the copyright action against them and also by some alleged refusal to grant them licenses to rent videodiscs to hotel guests.

In December, 1985, this Court granted defendants' motion for summary judgment on plaintiffs' copyright claim. After extensive oral argument, the Court held that defendants' activities did not violate plaintiffs' exclusive public performance rights in their copyrighted works. That ruling is now on appeal.

Prior to bringing the motion for summary judgment, defendants embarked on extensive discovery with regard to both plaintiffs' copyright claim and their own counterclaim. Plaintiffs provided defendants with documents responsive to various requests, but were in initial disagreement over the extent to which many of defendants' requests were proper. They had, however, worked out most of their disputes, and were continuing to attempt to narrow the issues, when defendants filed this motion to compel. Because defendants' motion drastically mischaracterizes the history of the discovery in this case to make plaintiffs appear guilty of obstructionism and bad faith, plaintiffs shall offer an accurate account of the events leading up to this (largely unnecessary) motion before discussing their few remaining objections to the revised discovery requests.

In August, 1985, present counsel substituted into this matter as attorneys of record for plaintiffs.¹ Defendants filed a motion to compel the production of documents on

¹ Although it does not appear to plaintiffs to be relevant, defendants have set forth their version of the events that transpired in this action before present counsel was retained. Because present counsel have no first hand knowledge of such facts and because such facts were thoroughly reviewed for this Court in the Memorandum of Opposition to defendants' prior motion to compel, plaintiffs incorporate by reference herein such Memorandum of Opposition and its supporting declarations, and attach hereto a copy for the Court's convenience.

August 13, 1985 and proceeded with their motion without attempting to discuss the disputes with new counsel.

Before present counsel substituted into the action various documents had been produced by prior counsel. Present counsel immediately began preparing to produce all remaining documents that plaintiffs had agreed to produce. On September 12, 1985 a proposed protective order was sent to Jeffrey King, defendants' lead counsel, with a letter informing him that copies of many documents would be produced for him upon his signing of the proposed stipulated order. Mr. King informed plaintiffs' counsel that he required changes in the proposed order, and all counsel agreed to discuss it after the hearing on the motion to compel documents scheduled for September 18, 1985.

At the hearing, Mr. King was given a letter dated September 18, 1985 which enclosed a list of approximately 120 multi-page documents responsive to Requests Nos. 1, 2-5, 7, 8-9, 11, 12, 13-16, 22 and 40 which plaintiffs' counsel agreed to produce to Mr. King as soon as a stipulation for a protective order had been entered into.

The Court made no ruling with respect to the motion to compel documents. Instead, with regard to the document requests relating to the antitrust counterclaims (the requests that are the subject of the instant motion), this Court advised defendants' counsel that the requests should be narrowed, and asked all counsel to cooperate in resolving the disputes.²

After the hearing, counsel discussed at length the unresolved discovery issues and the proposed protective order. Counsel agreed to hold the antitrust discovery requests in abeyance until after this Court's decision on the cross-motions for summary judgment on the copyright claim,

² See transcript of hearing of September 18, 1986, the relevant pages of which are attached hereto for the Court's convenience as Appendix 2.

which were heard and decided by this Court on December 16, 1985.

On January 6, 1986, counsel began discussing the requests at issue in this motion. Plaintiffs' counsel indicated that plaintiffs believed all proceedings in the action should be stayed until resolution of the appeal of the summary judgment on the copyright claim, and asked if defendants would agree to such a stay. Defendants agreed to consider the matter and to give plaintiffs their answer during the conversation they scheduled for January 15, 1986 (which was rescheduled for January 23, 1986 due to plaintiffs' counsel's illness). Defendants' asked that plaintiffs in the meantime attempt to narrow defendants' document requests. Plaintiffs proceeded to devote substantial amounts of time to revising defendants' exceedingly overbroad original requests.

On January 23, 1986, defendants' counsel stated that defendants would not agree to a stay of all proceedings but suggested that they might agree to postpone filing any motion to compel documents until after plaintiffs' motion to stay had been heard and decided. Plaintiffs' counsel agreed to continue the process of narrowing the requests in order that the categories of documents to be produced would be agreed upon should the Court determine that proceedings on the counterclaim should go forward.

During the conversation on January 23, 1986, plaintiffs presented their proposed reformulation of the requests. Defendants' counsel dismissed plaintiffs' proposals without discussion. He instead orally suggested revisions which consisted of a total of seven proposed requests (hereinafter "defendants' revised requests").

After plaintiffs' requested for written confirmation of defendants' revised requests, defendants sent a list of their revised requests to plaintiffs' counsel by letter of January 29, 1986. Throughout the next week, defendants' counsel, Patrick Coyne, repeatedly telephoned and wrote to

plaintiffs' counsel, Maren Christensen, demanding to know plaintiffs' positions with regard to the revised requests. By letter of February 4, 1986 Mr. Coyne stated that if he had no response by February 7, 1986 he would be forced to conclude that plaintiffs were not willing to comply with defendants' document requests and that plaintiffs were unwilling to provide the information necessary to prepare a stipulation for a motion to compel discovery. In response to Ms. Christensen's letter of February 6, 1986 stating that her clients were working expeditiously to narrow the requests as the Court had ordered, Mr. Coyne stated in his letter of February 7, 1986 that "[defendants] are under no obligation to narrow the requests."

On February 7, 1986, defendants' counsel telephoned plaintiffs counsel and asked whether plaintiffs were willing to waive any of the objections in the response to the document requests they had filed a year earlier. Plaintiffs' counsel were surprised by the question. Plaintiffs had been focusing their attention on defendants' *revised requests* and did not think that the original requests or the original objections were relevant to their negotiations. Rather, they stated that they believed that the plaintiffs' response to defendants' revised requests, which defendants would soon have, would settle the disputes. Defendants' counsel pressed plaintiffs' counsel to state whether or not they were ~~willing~~ to waive any of their original objections at that time. Plaintiffs' counsel responded that since they had not reviewed or discussed such objections in many months they were not prepared to waive anything during that conversation.

It is clear now that defendants were preparing to file a motion to compel documents even before they received plaintiffs' response to their revised requests, and that such motion would characterize the dispute as it was before the negotiations began (i.e., defendants' original requests and plaintiffs' original responses).

On February 11, 1986, eight business days after plaintiffs' counsel received defendants' written revised requests, plaintiffs telecopied a letter to defendants in which plaintiffs agreed as follows to substantially all of defendants revised requests:³

Request No. 1

Defendants requested that their counsel review copies of all license agreements for the manufacture and distribution of videodiscs and tapes, and copy those portions that were agreed to be relevant and not confidential. Any disagreements would be submitted to the Court. Plaintiffs agreed to produce such documents on that basis.

Request No. 2

Defendants requested all MPAA⁴ documents relating to rental of videodiscs or tapes.

Defendants at first agreed that these documents would be restricted to those relating to hotels and motels. They then said this would be a "first cut only."

³ For the Court's convenience, Appendix 1 to this Memorandum contains the following information, organized according to each request.

1. Defendants' revised requests, as confirmed in a letter to Patrick Coyne from Maren Christensen dated January 27, 1986;
2. Defendants' revised requests as confirmed by Mr. Coyne in his letter of January 29, 1986; and
3. Plaintiffs' response to defendants' revised request as stated in Ms. Christensen's letter of February 11, 1986.

⁴ The MPAA is a trade association whose members are motion picture distributors and/or producers. MPAA's activities consist, in large part, of: (1) lobbying and related means of expressing its views to state and federal legislatures, administrative agencies, and other governmental bodies; and (2) engaging in litigation concerning broad issues of general concern to the motion picture industry (e.g., censorship, piracy, and cable television issues).

Plaintiffs offered all MPAA generated documents in plaintiffs' files that relate to rental of videodiscs or tapes to hotel and motel guests that are not protected by the *Noerr-Pennington* doctrine.

Request No. 3

Defendants requested all protest letters and complaints protesting the rental of videodiscs or tapes.

Plaintiffs offered all such documents relating to the rental of videodiscs or tapes at hotels or motels.

Request No. 4

Defendants requested all communications regarding defendants.

Plaintiffs agreed to produce all such non-privileged communications not protected by the *Noerr-Pennington* doctrine.

Request No. 5

Defendants requested copies of all press releases, warnings and advertisements generated by the MPAA or by plaintiffs published in magazines to protest the unauthorized use of videodiscs and tapes.

Plaintiffs agreed to produce samples of any such documents in their possession regarding use in hotels and motels.

Request No. 6

Defendants requested all communications between the parties and their licensees relating to restrictions on the sale of videodiscs and tapes to all entities that rent them.

Plaintiffs offered such documents regarding the sale or resale of videodiscs or tapes to hotels or motels.

Request No. 7

Defendants requested samples of plaintiffs' home viewing labels and the F.B.I. labels and symbols, and communications relating thereto.

Plaintiffs offered all such non-privileged documents except as they are protected by the *Noerr-Pennington* doctrine.

The Proposed Protective Order.

With respect to the proposed protective order, defendants suggested that plaintiffs' confidential documents not be shown to anyone affiliated with plaintiffs engaged in the business of videodisc or videotape production or distribution until plaintiffs had the opportunity to apply to this Court for an order disallowing such disclosure. Plaintiffs agreed with defendants' proposal except proposed that they should have the opportunity to ask this Court to exclude all persons affiliated with any entity in the business of videodisc or videotape production or distribution, not just those affiliated with one of the plaintiffs (i.e., persons affiliated with competitors or potential licensees of plaintiffs would not be shown plaintiffs' confidential documents without giving plaintiffs the chance to apply to this Court for an order excluding such persons).

Plaintiffs' Proposed General Limitations.

In plaintiffs' February 11, 1986 letter plaintiffs suggested a reasonable time period regarding the documents required to be produced. Since acts before February 1, 1980 would be time-barred, plaintiffs proposed that their search and production include documents generated between February 1, 1980 and February 1, 1984.

Plaintiffs also proposed restricting the search to plaintiffs' home office files since it is highly unlikely that any of the requested documents would be found in the thousands of branch offices whose files it would be very burdensome and time-consuming to search.

Plaintiffs refused to produce any documents protected by the attorney-client privilege, the attorney work-product doctrine, or the *Noerr-Pennington* doctrine, but agreed to produce a list of all documents withheld on such grounds and all information necessary to determine if such claims were appropriate.

The Issue In Dispute.

Thus, as of February 11, 1986, the open issues were narrowed to the following:

(1) Should the categories requesting (a) documents generated by the MPAA relating to the rental of videodiscs and tapes, (b) cease and desist and other protest letters and complaints protesting rental of videodiscs and tapes, (c) communications between the parties and their licensees regarding restrictions on the sale of videodiscs and tapes, and (d) press releases, warnings, and advertisements published in magazines by the MPAA or by plaintiffs protesting the unauthorized use of videodiscs and tapes, be restricted to documents relating to hotels and motels, or should plaintiffs be required to search for and produce such documents with respect to all areas of the videodisc and videotape industry?

(2) Are any otherwise responsive communications regarding legislative and judicial activities of the plaintiffs protected from discovery in this action by the *Noerr-Pennington* doctrine?

(3) Should plaintiffs have the opportunity to apply to this Court for an order disallowing plaintiffs' competitors and potential licensees, and others in the videodisc or videotape industry, from viewing plaintiffs' confidential documents?

Defendants' Efforts To Expand Their Revised Requests.

On February 12, 1986 counsel again discussed the requests by telephone. During that discussion defendants'

counsel indicated that he was no longer satisfied with defendants' revised requests and wanted the following changes:

Request No. 1: Defendants were no longer interested in simply *viewing* plaintiffs' unredacted license agreements, but instead wanted to copy all of the highly confidential financial information contained therein. Plaintiffs could not agree to this as this information was totally irrelevant to defendants' counterclaims and its disclosure would be very prejudicial to plaintiffs;

Request No. 2: Defendants wanted not only documents generated by the MPAA, as originally requested, but also documents generated by plaintiffs' and sent to the MPAA;

Request No. 5: Defendants wanted the term "published in magazines" changed to "published or otherwise distributed" and the word "unauthorized" deleted.

Mr. Coyne was told that the requested changes would be taken up with plaintiffs as quickly as possible. He responded that he could not promise to wait until the remaining issues were resolved before filing a motion to compel production of documents. Two days later, on February 14, 1986, a proposed stipulation of issues pursuant to Rule 17.15.2 was delivered to plaintiffs' counsel.

Defendants' Proposed Rule 17.15.2 Stipulation.

Defendants' proposed stipulation inaccurately reflected plaintiffs' positions on many issues, described disputes over issues that plaintiffs' current counsel had never discussed with defendants' counsel (e.g., the situs of the production), made still further changes in the document requests (e.g., for the first time included "competitors" in Request No. 6), and inaccurately described the history of the discovery disputes (e.g., stating that plaintiffs were required to produce the documents at issue more than a year ago when in fact all counsel had been ordered by this Court to work together to resolve the disputes and had agreed not to

begin to do so until after the decision on the motions for summary judgment, and did not actually begin their negotiations until January, 1986).

After several lengthy and unproductive telephone calls with defendants' counsel in an attempt to revise the proposed stipulation to reflect the true nature of the issues and documents in dispute, plaintiffs' counsel, on February 28, 1986, informed defendants' counsel that it appeared impossible to prepare a stipulation over the telephone, but that she would provide him with plaintiffs' written contentions and authorities for inclusion in the joint statement by March 7, 1986. She suggested that the hearings on all motions before this Court be continued, if necessary, to allow counsel sufficient time to prepare a joint stipulation. Defendants' counsel did not wait for plaintiffs' input, but instead filed this motion on March 3, 1986. It all but ignores the efforts of plaintiffs' counsel over the past several months to resolve the disputes.

III.

PLAINTIFFS HAVE OFFERED TO PRODUCE ALL RELEVANT DOCUMENTS RESPONSIVE TO DEFENDANTS' REVISED REQUESTS

Defendants' revised requests seek irrelevant documents in that they seek all documents relating to the videodisc and videotape industry as a whole; they seek documents relating to plaintiffs' legislative and judicial activities that are protected by the *Noerr-Pennington* doctrine, they seek confidential financial information contained in plaintiffs' licensing agreements, and they seek documents outside any time period relevant to this action.

A. Only Documents Regarding The Use Of Videos By Hotel And Motel Guests Are Relevant To Defendants' Claims.

Among their requests, defendants' have requested (1) all MPAA documents in plaintiffs' files relating to the rental

of videodiscs and videotapes; (2) all protest letters, complaints, etc. protesting the rental of videodiscs and videotapes; (3) all press releases, warnings, and advertisements, placed in magazines by the MPAA or by plaintiffs protesting the unauthorized use of videodiscs and videotapes; and, (4) all communications between the parties and their licensees regarding restrictions on the sale of videotapes or videodiscs to any entity that rents them. Unless these four categories are restricted to documents relating to the sale or rental by hotels and motels of videodiscs and tapes, each of the plaintiffs would have to search thousands of files and produce tens of thousands of documents that are totally irrelevant to defendants' antitrust claims.

From a review of defendants' cross-complaint and Memorandum it appears that their antitrust claims are twofold:

1. That plaintiffs have filed this copyright action which is alleges to be a sham; and
2. That plaintiffs have boycotted and concertedly refused to grant licenses to defendants to rent videodiscs and tapes to hotel guests in order to "maintain a monopoly over the distribution of motion pictures to hotels and resorts."

Although defendants are allowed broad discovery on the claims that they have stated, they are not entitled to discovery merely to determine whether or not additional, unasserted claims might exist. [While] a plaintiff is entitled to the fullest opportunity to adduce evidence in support of the cognizable claims set out in his complaint, he is not entitled to discovery for the purpose of determining whether or not there may be a factual basis for a claim he has not made. *Cohen v. Illinois Institute of Technology*, 524 F.2d 818, 327 (9th Cir. 1975), cert. denied, 425 U.S. 943, 96 S.Ct. 1683, 48 L.Ed.2d 187 (1976).

In their Memorandum defendants have shown conclusively that no documents other than those relating to hotel

and motel rental of videodiscs and tapes could possibly be relevant to their counterclaims. On page 16, lines 14-16 of their Memorandum, defendants purport to explain the basis of their antitrust claims. They allege that plaintiffs have undertaken to "maintain a monopoly over the distribution of motion pictures to hotels and resorts." They allege that plaintiffs license their motion pictures for transmission to hotel rooms, generally through a television cable system, and that in order to protect this business plaintiffs have attempted to restrict rental of videodiscs and tapes for in-room viewing. Defendants list various activities that plaintiffs have allegedly engaged in as a part of this alleged conspiracy to monopolize the viewing of motion pictures in hotel rooms, and state that these alleged activities "constitute a conspiracy to restrain trade in the marketing of videos to hotels and resorts . . . and an attempt and a conspiracy to monopolize the movie market in hotels and resorts . . ." (Defendants' Memorandum page 17, lines 11-15).

Thus, as stated by defendants themselves, their antitrust claims are limited to plaintiffs' alleged attempt to constrict the rental of videodiscs and videotapes for in-room viewing by hotel guests. Broadening the required search and production beyond that to include documents involving all aspects of the video industry would be unduly burdensome and would not produce relevant documents or documents reasonably calculated to lead to the discovery of admissible evidence. For example, defendants have requested all documents to or from the MPAA relating to the rental⁵ of videodiscs and tapes. This would include at least tens of thousands of documents regarding, among other things,

⁵ Defendants' revised requests concerned the "rental" of such tapes and discs. In Section IV of their Memorandum defendants have attempted to broaden this request to include rental, use or sale of the tapes and discs. This would involve millions of documents on every aspect of the video industry.

retail video stores; tape piracy; off-the-air recording; legislative efforts regarding the "first sale doctrine;"⁶ the profit participation of writers, directors, etc. in the rental of videodiscs and tapes; use of tapes in commercial broadcasts, pay cable networks, syndication, schools, prisons, commercial airlines, and a myriad of other issues and uses that have no relation whatsoever to defendants' claims regarding viewing movies in hotel rooms. There is absolutely no basis for putting plaintiffs through such a useless, time consuming and enormously expensive search.

The party seeking discovery has the burden of demonstrating its merits. *Clark v. Universal Builders, Inc.*, 501 F.2d 324, 340 (7th Cir.), cert. denied, 419 U.S. 1070, 95 S.Ct. 657, 42 L.Ed.2d 666 (1974). Defendants' only attempt to show relevancy of documents other than those relating to hotels and motels is their inaccurate and misleading characterization of a conversation with plaintiffs' counsel. Patrick Coyne asked Maren Christensen whether plaintiffs' license agreements with RCA made any specific mention of the hotel/motel videodisc rental market. She stated that she was not aware of a distinction regarding hotels and motels in any license agreements with RCA for the manufacture and distribution of videodiscs, and that plaintiffs would produce all license agreements for home video, rather than limit production to agreements (if any) mentioning hotels and motels. This conversation has been twisted into an alleged statement that "plaintiffs make no distinction between hotels and motels and other sections of the rental market." (Defendants' Memorandum page 26, lines 17-19).

⁶ This issue regards legislative efforts concerning the right of copyright holders to participate in rental royalties of videodiscs and videotapes subsequent to their first sale.

B. Certain Of The Documents Requested Are Protected By The Noerr-Pennington Doctrine.

Among their revised requests, defendants continue to insist that plaintiffs produce all documents: (1) generated by the MPAA relating to the video rental industry as a whole; (2) reflecting communications of and among plaintiffs regarding defendants; and (3) relating to plaintiffs' home viewing labels and FBI labels. As previously discussed, the majority of these documents should be protected from discovery by the Court simply on the ground that, to the extent that they do not relate to the rental of movies in hotels and motels, they could have no possible bearing on defendants' antitrust claims and would cause plaintiffs an overwhelming burden involving the production of many thousands of irrelevant documents.

These three requests must be narrowed for still another reason: they would require plaintiffs to produce documents reflecting their efforts to lobby or petition for a change in laws affecting the video industry or to bring about similar changes by way of the courts. Because production of these documents would create a severe "chilling effect" on plaintiffs' constitutionally protected activities, the First Amendment considerations regarding discovery of these documents are profound.

As discussed below, the case law requires that defendants make a strong showing of relevancy to justify such intrusive discovery. In this case, defendants clearly have not met their burden. Rather, they have sought to shift the onus to plaintiffs by asserting that plaintiffs have waived any supportable objections to producing documents disclosing their constitutionally protected activities and communications. Defendants also argue that there exists no absolute privilege against production of documents relating to First Amendment activities.

As for plaintiffs' alleged waiver, defendants admit that plaintiffs have objected to each of the requests at issue

on the grounds of relevancy. Plaintiffs' basis for seeking protection against production of these sensitive documents is that defendants cannot make an adequate showing of relevancy to justify their disclosure. While courts require a strong showing of relevancy where First Amendment considerations are at stake, defendants have not even attempted to show the relevancy to their antitrust counterclaims of the documents specifically related to plaintiffs' and the MPAA's legislative and judicial activities.

1. Documents Reflecting Judicial Activity.

As previously discussed, defendants' claim that plaintiffs brought a "sham" copyright lawsuit against them. The determination of whether or not defendants are entitled to MPAA documents reflecting plaintiffs' communications with the MPAA regarding litigation with respect to the video rental industry depends on whether these documents are relevant to proving defendants' allegation that plaintiffs' copyright action against them is a "sham."

In interpreting the antitrust laws, the Supreme Court has held that the Sherman Antitrust Act was not designed or intended to restrict the rights of individuals to act together to invoke governmental processes, including the judicial system. Thus, parties with common interests are free to combine to "use the channels and procedures of state and federal agencies and courts to advocate their causes and points of view respecting resolution of their business and economic interests *vis-a-vis* their competitors" without fear of antitrust liability. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 511, 92 S.Ct. 609 (1972); *United Mine Workers of America v. Pennington*, 381 U.S. 657, 85 S.Ct. 1585 (1965); *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 81 S.Ct. 523 (1961). This so-called Noerr-Pennington doctrine protects the rights guaranteed under the First Amendment to petition the government, including redress of grievances in the courts "regardless

of intent or purpose." *Pennington*, *supra*, 381 U.S. at 670. The protection from antitrust liability applies even when the goals underlying joint activity are anti-competitive. *Pennington*, *supra*, 381 U.S. at 670; *Noerr*, *supra*, 365 U.S. at 139.

Under the *Noerr-Pennington* doctrine, activities to induce lawful action by the government are generally immune from antitrust liability. Excluded from such protection, however, is activity which constitutes a "sham." As stated recently by the Ninth Circuit in *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1413 (9th Cir. 1984):

"The general rule is that petitions to induce lawful government action are immune from attack under the antitrust laws. *Noerr*, 365 U.S. at 135-136, 81 S.Ct. at 528-529; *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1251 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227, 103 S.Ct. 1234, 75 L.Ed.2d 468 (1983). The immunity can be lost, however, if such steps are a mere sham, undertaken solely to interfere with free competition and without the legitimate expectation that such efforts will in fact induce lawful government action. *Noerr*, 365 U.S. at 144, 81 S.Ct. 533."

Because the *Noerr-Pennington* doctrine is intended to protect the First Amendment right to petition the government, the "sham" exception is construed very narrowly. *California Motor Transport Co.*, *supra*, at 510. To prove an antitrust violation based on judicial activities, a plaintiff must, at the least, prove that a defendant's lawsuits were "knowingly baseless." *Clipper Express*, *supra*, 690 F.2d at 12156, n. 25 ["[T]he constitutional guarantee of the right of petition which underlies *Noerr-Pennington* immunity protects only legitimate suits and not sham litigation, whether that litigation consists of one knowingly

baseless complaint or many.']; *Omni Resource Development Corp. v. Conoco, nc.*, *supra*, 739 F.2d at 1414 ["A finding of sham requires *not only that the suit is baseless*, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anti-competitive (emphasis added)"]. As stated by the court in *Clipper Express*, the controlling factor in determining whether or not the "sham" exception applies to a given lawsuit or series of lawsuits is "whether the evidence shows that the claim or claims filed constitute an abuse of process." 690 F.2d at 1257, n. 25.

When the main action is an intellectual property infringement case, a defendant who brings a counterclaim for antitrust violations based on the infringement action must make an especially strong showing of plaintiff's bad faith in bringing the lawsuit before such a lawsuit can constitute a "sham" under *Noerr-Pennington*. Otherwise, the "fear of the vexations or punitive consequences of treble-damage suits" might kill legitimate patent, copyright and trademark enforcement efforts. *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 996 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) [higher standard necessary for antitrust counterclaim in patent litigation]; *Caplan v. American Baby, Inc.*, 582 F.Supp. 869, 897 (S.D.N.Y. 1984) [copyright]. In ruling on a motion to dismiss, the court in *W. Goebel Porzellanfabrik v. Action Industries, Inc.*, 589 F.Supp. 763, 767 (S.D.N.Y. 1984), noted:

"[L]awsuits have only rarely been treated as part of an antitrust conspiracy. Where the holder of a valid copyright brings suit in good faith and based on reasonable grounds, '[w]hatever other anticompetitive activity the [copyright holder] may be guilty of, the [copyright laws] would seem to authorize him to bring such a non-frivolous suit.'"

Only if the suit is brought in bad faith, i.e., as a "sham," can antitrust liability ever attach. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 92 S.Ct. 609 (1972). In *Overman v. Loesser*, 205 F.2d 521, 524 (9th Cir. 1953), *cert. denied*, 346 U.S. 910, 74 S.Ct. 241, the court found that the copyright action had been instituted in good faith where the principle question before the court presented a complex issue of law.

Defendants, by their own admissions, would be hard pressed to devise an argument as to how plaintiffs' documents might show that plaintiffs brought their action in bad faith. To the contrary, defendants' proposed findings of fact and conclusions of law on their Motion for Summary Judgment included a finding, which was subsequently entered by the Court, that the complex issue presented by the copyright complaint "is one of first impression." To apply the sham exception to an intellectual property action asserting novel and complex theories, and thereby subject plaintiffs to the threat of treble damages, would "chill" the good-faith efforts of plaintiffs to obtain redress in the courts.

Defendants' inability to show the relevancy to their antitrust claims of documents relating to MPAA's and plaintiffs' various and wide-ranging litigation efforts militates against the compelling of the production of these documents for a second, although related, reason. Only "relevant" documents are subject to discovery. Fed.R.Civ.P. 25(b)(1). Since the *Noerr-Pennington* doctrine is a reflection of First Amendment principles, courts place a heavy burden on parties to show that the discovery they have requested is "relevant." If a party cannot meet that burden, the balance shifts in favor of the First Amendment protections and the discovery will not be compelled.

Defendants have not even alluded to any basis on which documents relating to MPAA and plaintiffs' litigation activities could possibly be relevant to their antitrust coun-

terclaim. Instead, defendants seem to believe that they do not have to make such a showing because, according to them, the *Noerr-Pennington* doctrine does not apply to discovery. Such a position is completely erroneous.

Even in *North Carolina Electric Membership Corp. v. Carolina Power and Light Co.*, 666 F.2d 50 (4th Cir. 1981), which is the case relied on by defendants in support of their erroneous proposition, the court stated that, in order to be discoverable, *Noerr-Pennington* material must be calculated to lead to admissible evidence. 666 F.2d at 53 n. 6. Subsequent to that decision, the court in *Australia/Eastern U.S.A. Shipping Conference Etc. v. U.S.*, 537 F.Supp. 807 (D.D.C. 1982), held that the *Carolina Power* case did not mean that the harm to first amendment values attendant upon forced disclosure of *Noerr*-protected conduct should not be weighed against the interests favoring disclosure. 537 F.Supp. at 809.

In *Australia/Eastern*, the Justice Department, in connection with an antitrust investigation, sought documents related to *Noerr*-protected activities. Holding that the government had not made an adequate showing of relevancy to warrant the production, the court cited a long litany of cases, including several Supreme Court cases, which require the harm to First Amendment values attendant upon disclosure to be balanced against the governmental, or in the case of civil discovery, private, need for information. It characterized the "overwhelming weight of authority" as holding that forced disclosure of First Amendment activities causes a "chilling effect" against which the interests of obtaining information must be weighed.

2. Documents Relating To Legislative And Lobbying Activities.

Defendants have also requested documents related to plaintiffs' and MPAA's extensive legislative and lobbying activities. The *Noerr-Pennington* doctrine protects from an-

titrust liability the rights of groups with common interests to advocate their causes and points of view to both courts and state and federal agencies. *California Motor Transport Company, supra*, 404 U.S. at 511.

Disclosure to defendants of documents relating to plaintiffs' and MPAA's lobbying activities would cause a severe "chilling effect" on their communications among each other and their ability to present effective arguments to state and federal legislative and administrative bodies. The confidentiality of MPAA's strategies and positions with respect to pending legislation, and with regard to proposing new bills and rules, is of paramount importance to MPAA's effective lobbying and advocacy regarding legislation. The knowledge that views communicated between the MPAA and its members might be subject to involuntary disclosure would "chill" the free flow of ideas regarding controversial (or simply confidential) matters. Furthermore, if those entities advocating opposing positions were to receive sensitive information regarding the specific views and arguments MPAA planned to present to state and federal legislative and administrative bodies and agencies, in addition to its rationale for adopting particular methods and approaches, the MPAA would be strategically disadvantaged and its efficacy in the legislative arena irreparably harmed. The mere expectation of such an occurrence would prevent the free flow of ideas between MPAA and plaintiffs and severely inhibit what are presumed to be confidential discussions and communications. Moreover, courts have recognized the *inherent* "chilling effect" on privileged communications and activities which automatically follows forced disclosure of *Noerr*-related conduct and against which the interest in obtaining any such information must be weighed. *See, Australia/Eastern, supra*, 537 F.Supp. at 810.

Not only have defendants failed in their Memorandum to show any interest whatsoever in obtaining the information relating to plaintiffs' and MPAA's lobbying efforts,

but a review of their pleadings reveals that their antitrust allegations against plaintiffs have absolutely nothing to do with plaintiffs' or the MPAA's activities before state and federal legislatures. Thus, plaintiffs' privacy interest *must* be considered paramount.

The district court in *Adolph Coors Co. v. Wallace*, 570 F.Supp. 202, 205 (N.D.Cal. 1983), in reversing a Magistrate's ruling in a civil discovery matter which ordered a defendant to answer interrogatories, subject to a protective order, on the ground that the Magistrate erroneously rejected defendants' claims of constitutional privilege, stated:

"A good-faith interjection of First Amendment privilege to a discovery request however, mandates a comprehensive balancing of the plaintiffs' need for the information sought against the defendants' constitutional interests in claiming the privilege. This balancing is of paramount importance"

Citing Supreme Court authority, the court in *Coors* explained that any interest in disclosure will be "relatively weak unless the information goes to 'the heart of the matter'." *Id.* at 208. Once a constitutional challenge for withholding the information has been asserted, the court "considering a private [litigant's] discovery request should demand a heightened showing of 'relevancy.'" *Id.*

Since defendants have not shown any relevance of the information regarding plaintiffs' and the MPAA's lobbying activities the plaintiffs' constitutional interests are clearly paramount. Therefore, under the *Noerr-Pennington* doctrine, and the first amendment principles underlying that doctrine, plaintiffs should not be required to disclose documents which would reveal their constitutionally privileged communications and activities.

C. Financial Information Contained In Plaintiffs' License Agreements Is Totally Irrelevant.

Defendants have reneged on their agreement with regard to the copying of the financial information contained in plaintiffs' license agreements. As can be seen from Appendix 1, defendants agreed that defendants' counsel would view totally unredacted copies of the license agreements and then would request copies of the provisions they deemed relevant. If plaintiffs' counsel agreed, copies would be made. If they disagreed, defendants would apply to this Court for an order. Plaintiffs considered all financial information totally irrelevant. In fact, this was a procedure suggested by *defendants'* counsel in September, 1985. Thus, plaintiffs were in agreement with *defendants'* terms, as evidenced by the letter of February 11, 1986 from plaintiffs' counsel.

On February 12, 1986, defendants' counsel changed the terms and insisted upon *copying* (instead of viewing) the financial terms. Plaintiffs' license agreements contain confidential business information (including, among other things, the royalty rates negotiated by each plaintiff with the various licensees who manufacture and distribute the videodiscs and tapes of plaintiffs' motion pictures), which is very sensitive and is irrelevant to defendants' counterclaims and not reasonably calculated to lead to the discovery of admissible evidence. Among other things, the disclosure of such information would enable plaintiffs' competitors to compete unfairly with plaintiffs, and would destroy plaintiffs' ability to negotiate effectively with their licensees and potential licensees.⁷

Defendants have made absolutely no showing of the relevancy of these financial terms to their antitrust claims. As previously stated, defendants' antitrust counterclaims

⁷ See, for example, Declarations of Bernard R. Sorkin and Ben Tenn filed herewith.

as stated in their Memorandum are: (1) that this is a sham lawsuit, and (2) that plaintiffs have concertedly refused to license defendants in order to monopolize the showing of movies to hotel guests. The financial aspects of plaintiffs' agreements with their licensees for manufacturing and distributing videodiscs and tapes could not possibly be relevant to either of these claims.

Defendants' attempt to show relevancy is neither cognizable nor credible. On page 17, lines 6-10 of their Memorandum, they stated that "[r]ecently, Irwin learned that plaintiffs may also discriminate among its [sic] licensees by charging different license fees to different distributors. Such discrimination may be used to punish distributors that sell to businesses that rent videos. Moreover, such price discrimination is by itself a violation of the antitrust law."

As a threshold issue, defendants have not alleged price discrimination. Their attempt to show relevancy is therefore not even cognizable. Once again, defendants are attempting to use discovery to determine if some unasserted claim may exist. Further, their vague allusion to some unspecified information from some unidentified source which purportedly leads them to believe that plaintiffs *may* charge different license fees to different distributors, and that this *may* be done "to punish distributors that sell to businesses that rent videos" is both groundless and illogical. Even if different plaintiffs have negotiated different financial terms with different manufacturers and distributors, this certainly would not constitute price discrimination,⁸ and defendants state absolutely no basis for believing that this could have anything to do with punishing distributors that sell to businesses that rent videos. If defendants are searching for evidence that plaintiffs are attempting to coerce their licensees not to sell videodiscs

⁸ 15 U.S.C. § 13(a). See generally, Hills, *Antitrust Advisor* §§ 4.05-4.07 (3 ed. 1985) (Price Discrimination).

to hotels or motels that might rent them to their guests, they should search the license agreements for such restrictions (these documents have been offered for viewing by defendants' counsel and search the communications between plaintiffs and their licensees for any restrictions on the ability of their licensees to sell videos to such hotel entities (these documents also have been offered). To pretend that defendants could find evidence of such a scheme in the financial terms of the licenses is on its face ridiculous. Even if differing license fees did constitute price discrimination, defendants, as "indirect purchasers," would have no standing to complain about such alleged discrimination. See *Illinois Brick Co. v. State of Illinois*, 431 U.S. 720, 97 S.Ct. 2061 (1977). Thus, the potential injury to plaintiffs from the revelation of this confidential information outweighs any possible benefits that defendants might legitimately derive from it in this action.

D. Documents Outside The Time Period February 1980-February 1984 Are Not Relevant.

Defendants have objected to plaintiffs' putting a limitation on the time period for the relevant documents. Defendants' request has no limiting period so that all documents generated from the beginning of time until the present would be called for. This is clearly unreasonable in that it would be extremely burdensome, and most of such documents would be irrelevant. Since any activities engaged in before February 1, 1980 would be barred by the applicable statute of limitations, plaintiffs have limited the document production to those generated after that date, and defendants have made no showing of the relevancy of any documents generated before that date. As stated by the court in *Klein v. Lionel Corporation*, 130 F.Supp. 725, 728 (D. Del. 1955), "Since the causes of action prior to December 29, 1951 are barred by the Statute [of Limitations] so, I think, interrogatories inquiring of events prior to that time need not be answered. There

can be no relevancy in matters which are not in issue or which have no bearing upon issues to be litigated."

E. Plaintiffs Should Be Required To Search Only Their Home Office Files.

Defendants further object to plaintiffs' proposal that they search their home offices for documents responsive to the requests. As was explained to defendants' counsel by telephone on February 12, 1986, many of the plaintiffs have branch offices in every city in the country and in most major cities of the world. In order to comply with a request that was not so narrowed, plaintiffs would have to search thousands of offices, which would be very expensive and time consuming. Plaintiffs have no reason to believe that any responsive documents would be found anywhere but their home offices, and defendants have suggested none. Thus, it would be unreasonable to force plaintiffs to search files other than those at their home offices.⁹

IV.

PLAINTIFFS HAVE ATTEMPTED IN GOOD FAITH TO NEGOTIATE A PROTECTIVE ORDER ACCEPTABLE TO ALL PARTIES.

From September, 1985 until the present the parties have been negotiating the terms of a stipulated protective order. When negotiations were broken off by the filing of this motion, the open issue was whether plaintiffs should have the opportunity to apply to this Court for an order excluding disclosure of plaintiffs' confidential documents to any expert affiliated with any entity engaged in the business of videodisc or videotape production or distribution.

Defendants have agreed not to disclose (without giving plaintiffs the opportunity of seeking an order disallowing

⁹ See, for example, Declarations of Bernard R. Sorkin and Ben Tenn filed herewith.

disclosure) any such documents to anyone affiliated with any plaintiff with respect to videodisc or tape production or distribution. They will not agree to refrain from disclosing such documents to anyone else in the business of videodisc and videotape production or distribution, including actual or potential competitors or licensees of plaintiffs. Allowing competitors or potential licensees access to, among other things, the deal points of plaintiffs' licenses would defeat plaintiffs' ability to effectively compete and to freely negotiate with potential licensees.

Courts often disallow the disclosure of a party's confidential information to its competitors when it would cause harm to the party. In *Triangle Ink. and Color Company, Inc. v. Sherwin-Williams Company*, 61 F.R.D. 634 (N.D. Ill. 1974), the court, in another case where licensing agreement prices were considered confidential commercial information, granted an "attorneys only" protective order and, in addition, allowed consultation by the plaintiffs' counsel "with independent experts regarding the privileged information *provided* the parties mutually agree as to the independent experts." *Id.* at 636. [Emphasis added.] See also, *Spartanics, Ltd v. Dynetics Engineering Corp.*, 54 F.R.D. 524 (N.D. Ill. 1972) ("attorney only" order for confidential documents). Plaintiffs are lodging with the Court a proposed protective order in accordance with their proposal.

V.

DEFENDANTS' REQUEST FOR SANCTIONS AND ATTORNEYS' FEES SHOULD BE DENIED. INSTEAD, PLAINTIFFS ARE ENTITLED TO AN AWARD OF EXPENSES AND ATTORNEYS' FEES INCURRED IN THEIR OPPOSITION TO DEFENDANTS' FRIVOLOUS MOTION.

Defendants' have been and continue to be more interested in obtaining sanctions than in obtaining documents.

As previously stated, plaintiffs and their counsel have cooperated fully in attempting to resolve these disputes. Nonetheless, defendants have done nothing but erect roadblocks to the settlement of these disputes.

The motion served almost totally ignores the real issues in dispute in order to attempt to convince this Court that plaintiffs have not cooperated in discovery. Defendants' moving papers and proposed order renew *all* of defendants' original document requests and list *all* of plaintiffs' original objections thereto. This has unnecessarily necessitated the expenditure of a great deal of time and money in opposing a motion that, if necessary at all, should have been directed only at the few narrow issues still open, and should have been brought by stipulation under the Local Rules instead of by extensive briefing in which defendants raised burdensome, erroneous, and extraneous issues, all of which plaintiffs have been forced to address in a similarly lengthy memorandum.

Despite barraging the Court with a rendition of all of defendants' original requests, as though they were somehow meaningful, defendants have acknowledged in Section IV of their Memorandum that the original requests have been narrowed. However, as evidenced in Appendix 1, which contains a history of the parties' negotiations, even the requests as set forth by defendants in Section IV are broader than defendants' revised requests. Plaintiffs' extensive briefing would not have been necessary if defendants had been forthright with the Court and confined their Memorandum to the actual status of the few open issues regarding defendants' revised requests.

VI.

CONCLUSION

For the foregoing reasons defendants' Motion to Compel the Production of Documents should be denied and sanctions should be assessed against defendants and their

counsel in the amount of the attorneys' fees expended by plaintiffs in opposing this Motion.

Dated: March 14, 1986

Respectfully submitted,

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
MAREN CHRISTENSEN
BONNIE I. BOGIN

By: /s/ Maren Christensen
Maren Christensen
Attorneys for Plaintiffs and
Counterdefendants

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

NO. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIMS

**DECLARATIONS OF MAREN CHRISTENSEN,
BERNARD R. SORKIN AND BEN TENN IN OPPOSITION
TO DEFENDANTS' AND COUNTERCLAIMANTS'
MOTION TO COMPEL PRODUCTION OF DOCUMENTS
AND FOR EXPENSES AND ATTORNEYS' FEES**

Hearing date: 3/24/86

Time: 10:00 A.M.

Courtroom: 23

I, Maren Christensen, declare and say as follows:

1. I am an attorney at law duly licensed to practice in the State of California and before this Court and am a partner in the firm of Rosenfeld, Meyer & Susman, attorneys of record for plaintiffs herein.

2. Each and every fact stated herein is within my personal knowledge and if called as a witness I could testify competently thereto.

3. In or about August, 1985, my law firm was retained by the plaintiffs herein as their attorneys of record in this

action. At that time a dispute existed between the parties regarding the propriety of various of the document requests contained in "Defendants' and Counterclaimants' Request for Production of Documents Nos. 1 to 40," which is the subject of the instant motion to compel documents. I was informed by prior counsel that various documents responsive to the request had been produced and that plaintiffs had objected to the production of other documents on various grounds. I and others in my law firm began extensive efforts to gather and produce all documents that plaintiffs had agreed to produce but had not as yet produced.

4. On September 12, 1985 I sent a proposed protective order to Jeffrey King, defendants' lead counsel, with a letter informing him that copies of many documents would be produced for him upon his signing of the proposed stipulated order. Mr. King informed me by telephone that he required changes in the proposed order, and we agreed to discuss it after the hearing on the motion to compel documents scheduled for September 18, 1985.

5. The Court made no ruling with respect to the motion to compel documents at the hearing that took place on September 18, 1985. Instead, with regard to the document requests relating to the antitrust counterclaims (the requests that are the subject of the instant motion), this Court advised Mr. King that the requests should be narrowed, and asked all counsel to cooperate in resolving the disputes. (See pgs. 14-17 of transcript of hearing of September 18, 1986, attached to plaintiffs' Memorandum as Appendix 2).

6. Immediately after the hearing on September 18, 1985, I gave Mr. King a letter dated September 18, 1985 (attached hereto as Exhibit "1") which enclosed a list of approximately 120 multipage documents responsive to Requests Nos. 1, 2-5, 7, 8-9, 11, 12, 13-16, 22 and 40 which

plaintiffs' agreed to produce to Mr. King as soon as a stipulation for a protective order had been entered into.

7. During the afternoon of September 18, 1985, and on several other occasions thereafter, I discussed with Mr. King and Patrick Coyne, another of defendants' counsel, the unresolved discovery issues and the proposed protective order. We came to no agreement regarding the protective order. We agreed to hold the antitrust discovery requests in abeyance until after this Court's decision on the cross-motions for summary judgment on the copyright claim, which were heard and decided by this Court on December 16, 1985. Almost 900 pages of documents responsive to defendants' requests were produced before the hearing on the motions for summary judgment, some with plaintiffs' briefs (as agreed between counsel) and some under separate cover.

8. On December 31, 1985, Mr. Coyne attempted to reach me by telephone, apparently to discuss the antitrust discovery issues. When I attempted to return his call there was no response. I was then on vacation for several days, and returned to my office on January 6, 1986.

9. My partner Stephen Kroft and I telephoned Messrs. King and Coyne on January 6, 1986. During this conversation, Mr. Kroft indicated that plaintiffs believed all proceedings on the counterclaim should be stayed until resolution of the appeal of the summary judgment on the copyright claim, and asked if defendants would agree to such a stay. Mr. King agreed to consider the matter and to give plaintiffs an answer during the conversation they scheduled for January 15, 1986. Mr. King asked that plaintiffs attempt to narrow defendants' document requests regarding their counterclaims and present proposed revised requests on January 15, 1986. Plaintiffs proceeded to devote substantial amounts of time to revising defendants' exceedingly overbroad original requests.

10. As I was ill with the flu the week of January 15th, the next call was postponed until January 23, 1986. On January 23, 1986, I asked Mr. King if defendants would agree to stay all proceedings on the counterclaim. Mr. King stated that defendants would not agree to a stay of all proceedings but suggested that he would consider agreeing not to bring any motion to compel documents until after plaintiffs' motion to stay had been heard. I agreed that this would be an orderly way to proceed (as I believed that plaintiffs' motion to stay the proceedings would be granted), although I also agreed to continue with the process of narrowing the document requests as ordered by the Court. I then presented to Messrs. King and Coyne plaintiffs' proposals for narrowing defendants' document requests. Mr. King dismissed plaintiffs' proposals without discussion. He instead orally suggested revisions which consisted of a total of seven proposed requests (hereinafter "defendants' revised requests").

11. By letter of January 27, 1986, (attached hereto as Exhibit "2"), I confirmed these revised requests to Messrs. King and Coyne so that there would be no misunderstanding regarding their oral proposals. By letter of January 29, 1986, (attached hereto as Exhibit "3"), Mr. Coyne reconfirmed the revised requests to me.

12. Throughout the next week Mr. Coyne repeatedly telephoned and wrote to me demanding to know plaintiffs' positions with regard to the revised requests. By letter of February 4, 1986 (attached hereto as Exhibit "4"), Mr. Coyne stated that if he had no response by February 7, 1986 he would be forced to conclude that plaintiffs were not willing to comply with defendants' document requests and that plaintiffs were unwilling to provide the information necessary to prepare a stipulation for a motion to compel discovery. In response to my letter of February 6, 1986, (attached hereto as Exhibit "5") in which I stated that my clients were working expeditiously to narrow the requests as all parties had been instructed by the Court

to do, Mr. Coyne stated in his letter of February 7, 1986 (attached hereto as Exhibit "6") that "[defendants] are under no obligation to narrow the requests."

13. Also on February 7, 1985 Mr. Coyne telephoned me and my partner, William Billick, and asked whether plaintiffs were willing to waive any of the objections in the response to the document requests they had filed a year earlier. This surprised Mr. Billick and me because, as I told Mr. Coyne, plaintiffs had been focusing their attention on defendants' *revised requests* and did not think that the original requests or the original objections were relevant to the negotiations. Mr. Billick and I further informed Mr. Coyne that we believed that plaintiffs' response to defendants' revised requests, which he would receive by February 11, 1986, would settle the disputes. Mr. Coyne pressed us to state whether or not plaintiffs were willing to waive any of their original objections at that time. I responded that since I had not reviewed or discussed such objections in many months I was not prepared to waive anything on behalf of plaintiffs during that conversation.

14. On February 11, 1986, eight business days after I received defendants' written revised requests, I telecopied a letter to Mr. Coyne (attached hereto as Exhibit "7") in which plaintiffs agreed to substantially all of defendants' revised requests except for some necessary and proper limitations which are briefed in plaintiffs' memorandum in opposition to the instant motion.

15. On February 12, 1986 Mr. Coyne and I discussed my letter of February 11, 1986. During that discussion he indicated he wanted to make the following changes in defendants' revised requests:

Request No. 1: Mr. Coyne stated that defendants were no longer interested in simply *viewing* plaintiffs' undacted license agreements, as they had previously agreed but instead wanted to copy all of the highly confidential

financial information contained therein. I told him plaintiffs could not agree to this as this information was totally irrelevant to defendants' counterclaims and its disclosure would be very prejudicial to plaintiffs. Mr. Coyne asked me whether the license agreements distinguished between hotels and motels and other rental entities. I responded that I had reviewed many of the license agreements with RCA and I did not believe that they mentioned hotels and motels but would check this for him. I pointed out that we were not limiting this category to license agreements relating to hotels and motels.

Request No. 2: Mr. Coyne stated that defendants wanted not only documents generated by the MPAA, as originally requested, but also documents generated by plaintiffs and sent to the MPAA;

Request No. 5: Mr. Coyne stated that defendant's wanted the term "published in magazines" changed to "published or otherwise distributed" and the word "unauthorized" deleted.

16. I told Mr. Coyne that I would discuss his requested changes with my clients as quickly as possible. He stated that he could not promise to wait until the remaining issues were resolved before filing a motion to compel production of documents. Two days later, on February 14, 1986, a proposed stipulation of issues pursuant to Rule 17.15.2 was delivered to my office.

17. As I informed Mr. Coyne's co-counsel by letter of February 20, 1986 (attached hereto as Exhibit "8"), defendants' proposed stipulation inaccurately reflected plaintiffs' positions on many issues, described disputes over issues that Mr. Coyne and I had never discussed (e.g., the situs of the production), made still further changes in the document requests (e.g., for the first time included "competitors" in the request relating to communications between plaintiffs and their licensees), and inaccurately described the history of the discovery disputes (e.g., stat-

ing that plaintiffs were required to produce the documents at issue more than a year ago when in fact all counsel had been ordered by this Court to work together to resolve the disputes and had agreed not to begin to do so until after the decision on the motions for summary judgment, and did not actually begin their negotiations until January, 1986).

18. After several lengthy telephone calls with Mr. Coyne in an attempt to revise the proposed stipulation to reflect the true nature of the issues and documents in dispute, on February 28, 1986, I informed Mr. Coyne by letter of that date (attached hereto as Exhibit "9") that it was not workable to prepare a stipulation over the telephone, and that I would provide him with plaintiffs' written contentions and authorities, for inclusion in the joint statement, by March 7, 1986. In a second letter of that date, (attached hereto as Exhibit "10") I suggested that the hearings on all motions before this Court be continued, if necessary, to allow counsel sufficient time to prepare a joint stipulation. Mr. Coyne did not wait for plaintiffs' input, but instead filed and served this motion on March 3, 1986. It all but ignores the efforts of plaintiffs' counsel over the past several months to resolve the disputes.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 14th day of March, 1986, at Beverly Hills, California.

/s/ Maren Christensen
MAREN CHRISTENSEN

DECLARATION OF BERNARD R. SORKIN

I, BERNARD R. SORKIN, declare and say:

1. I am employed as an attorney by Warner Communications Inc., the parent of Warner Bros. Inc. ("Warner"), one of the plaintiffs in this action. In that capacity, I perform legal services for Warner. I make this declaration in support of plaintiffs' opposition to defendants' motion to compel plaintiffs to produce documents. The facts stated in this declaration are personally known to me and if called upon to testify at a hearing I could and would competently testify thereto.

2. I understand that defendants in this action have demanded the production of all license agreements for the manufacture and distribution of videodiscs and videotapes ["the license agreements"], including the financial information contained therein. Such financial information, including but not limited to the royalty rates to be paid to Warner for each videodisc or tape sold or otherwise exploited, the formula used to define and obtain such royalty, the guarantees, minimums, definitions for moneys due, accounting procedures, and so forth, are highly confidential and are known only to those company employees who must have this information in order to perform their jobs. Such terms are not even known to the other plaintiffs in this action.

3. Should the material terms of either past or current license agreements become known to Warner's competitors or potential licensees, it would cause Warner severe and irreparable harm in that, among other things, Warner's competitors could use such information to unfairly compete with Warner by negotiating agreements using Warner's agreements as a benchmark, under or over bidding Warner as it suited the competitor's own purposes. If such terms should become known to potential licensees of Warner it would ruin Warner's ability to negotiate effectively with its current and potential licensees.

4. I further understand that defendants in this action have requested that plaintiffs search all files, including branch offices, for documents responsive to their document requests. Warner's theatrical distribution subsidiaries have branch offices in many cities in the United States and they and other subsidiaries have offices in many major cities throughout the world. It would be extremely time consuming and expensive to search the files of these branch offices. I have no reason to believe that any responsive documents would be found in any files but those located in Warner's offices in Los Angeles and New York.

I declare under penalty of perjury that the foregoing is true and correct and that I have executed this declaration this 13th day of March, 1986 pursuant to the laws of the State of California at Burbank, California.

/s/ Bernard R. Sorkin
BERNARD R. SORKIN

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, Inc., etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et al.,
Defendants.

AND RELATED COUNTERCLAIMS

DECLARATION OF BEN TENN IN OPPOSITION TO
DEFENDANTS' AND COUNTERCLAIMANTS' MOTION
TO COMPEL PRODUCTION OF DOCUMENTS AND FOR
EXPENSES AND ATTORNEYS' FEES

HRG. DATE: March 24, 1986

TIME: 10:00 A.M.

COURTROOM: 23

I Ben Tenn declare and say:

1. I am a Vice President of the subsidiary of plaintiff Walt Disney Productions ("Disney") responsible for home video. I make this declaration in support of plaintiffs' opposition to defendants' motion to compel plaintiffs to produce documents. The facts stated in this declaration are personally known to me and if called upon to testify at a hearing I could and would competently testify thereto.

2. I understand that defendants in this action have demanded the production of all license agreements for the manufacture and distribution of videodiscs and videotapes,

("the license agreements") including the financial information contained therein. Such financial information, including but not limited to the royalty rates to be paid to Disney for each videodisc or tape sole or others exploited, the formula used to define and obtain such royalty, the guarantees, minimums, definitions for moneys due, accounting procedures, and other financial terms are highly confidential and are known only to those company employees who must have this information in order to perform their jobs. Such terms are not even known to the other plaintiffs in this action.

3. Should the material terms of the license agreements become known to Disney's competitors or potential licensees, it would cause Disney severe and irreparable harm in that, among other things, Disney's competitors could use such information to unfairly compete with Disney by negotiating agreements using Disney's agreements as a benchmark, under or over bidding Disney as it suited the competitor's own purposes. If such terms should become known to potential licensees of Disney it would seriously impair Disney's ability to negotiate effectively with its current and potential licensees.

4. The documentary information which I understand to be sought by defendants from Disney files, if it exists at all, would be located at Disney's home office in Burbank, California.

I declare under penalty of perjury that the foregoing is true and correct and that I have executed this declaration this 14th day of March, 1986, pursuant to the laws of the State of California at Burbank, California.

Ben Tenn
Ben Tenn

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

DEFENDANTS' MEMORANDUM IN OPPOSITION TO
PLAINTIFFS' MOTION FOR A STAY

Hearing Date: March 24, 1986

Hearing Time: 10:00 a.m.

Hearing Place: Courtroom 23

[Table of Contents omitted in this printing]

[Table of Authorities omitted in this printing]

INTRODUCTION

Defendants, Professional Real Estate Investors, Inc. and Kenneth F. Irwin (collectively "Irwin"), submit this memorandum in opposition to "Plaintiffs' and Counterdefendants' Motion for an Order Staying Proceeding on Counterclaims Pending Resolution of the Appeal." Plaintiffs' motion, which appears to seek a stay of both discovery and trial on Irwin's counterclaims, is defective for several reasons.

First, plaintiffs' motion lacks merit. Stays pending appeal are rarely granted and then only upon a showing of exceptional circumstances which are lacking here. Plaintiffs must establish that they are likely to prevail on the appeal and they will suffer irreparable harm if the stay is not granted. Plaintiffs have not even attempted to carry their burden of meeting this standard.

Second, plaintiffs base their motion entirely on the premise that Irwin's counterclaims are based solely on an allegation that plaintiffs' copyright suit was a "sham." Plaintiffs' contention is simply incorrect. Irwin's counterclaims allege a scheme of illegal activities of which this suit filed by plaintiffs is but one element.

Third, plaintiffs' motion appears to be in large part a motion to stay discovery. A stay of discovery would serve no useful purpose. The discovery concerning the counterclaims that plaintiffs seek to stay is also relevant to Irwin's affirmative defenses of misuse. Discovery of these issues will be needed in connection with Irwin's affirmative defenses, even if plaintiffs ultimately prevail on appeal. To stay discovery would only cause needless delay without any concomitant benefit. Moreover, plaintiffs have been in default of their existing discovery obligations for more than a year. Discovery, and in particular, the outstanding unanswered discovery, should proceed.

Fourth, plaintiffs failed to comply with this Court's Local Rule 7.15 requiring counsel to confer before filing any

discovery motions. Inasmuch as plaintiffs' motion appears to seek a stay of discovery, Rule 7 is applicable. A meeting under the Rule may have been able at least to clarify, and perhaps narrow, the issues raised in the motion. As a result, plaintiffs' motion should be stricken to the extent it seeks a stay of discovery.

FACTS

Plaintiffs are eight movie studios who brought this action alleging copyright infringement. Irwin answered the complaint, denying any wrongdoing, and filed affirmative defenses and counterclaims which allege copyright misuse, antitrust violations, and unfair competition. The parties filed cross summary judgment motions on plaintiffs' copyright claims. The Court ruled in favor of Irwin and plaintiffs have appealed that ruling. Irwin's counterclaims were not part of the cross-motions and are still pending before the Court. Irwin has sought discovery relevant to its counterclaims. Irwin served document requests on plaintiffs over a year ago. Those requests are still outstanding and a motion to compel production is presently before the Court.

ARGUMENTS

I.

PLAINTIFFS FAILED TO SATISFY THE REQUIREMENTS FOR A STAY PENDING APPEAL

A stay pending plaintiffs' appeal is not warranted in this case. Plaintiffs' only argument in support of their motion is that Irwin's counterclaims are based solely on a claim that plaintiffs' copyright claims are a sham and that the counterclaims may, therefore, be rendered moot if plaintiffs prevail on appeal. This argument not only misconstrues Irwin's counterclaims (see Argument II, *infra*), but fails to amount to the "irreparable harm" required to obtain a stay.

A stay pending appeal is granted only in "exceptional" circumstances. *Silberkleit v. Kantrowitz*, 713 F.2d 433, 435 (9th Cir. 1983). The standard is similar to that for a preliminary injunction. Plaintiffs are in effect seeking to enjoin the counterclaims from going forward, pending appeal on plaintiffs' infringement claims. To obtain such a stay, plaintiffs must show a probability of success on the appeal and irreparable harm if the stay is denied. *Lopez v. Heckler*, 713 F.2d 1432, 1435 (9th Cir. 1983) (in considering a motion to stay, the courts assess the same elements as required to obtain an injunction); *Dellums v. Smith*, 577 F. Supp. 1456, 1457 (N.D. Calif. 1984). Plaintiffs have not even attempted to satisfy this standard.

The courts impose this heavy burden in order to discourage stays pending appeal. This is only fair inasmuch as the party seeking the stay has already had a full opportunity to present its claims. Stays are rarely granted because they allow the party to avoid the result of litigation. The general inappropriateness of a stay pending appeal was recently noted by the court in *Dellums v. Smith*, 577 F. Supp. at 1457.

Stays are sparingly granted. They are a disfavored remedy because they interrupt the ordinary process of judicial review and postpone relief for the prevailing party.

Id. at 1457; accord, *Coastal (Bermuda) Ltd. v. E.W. Saybolt & Co.*, 761 F.2d 198, 203 n.6 (5th Cir. 1985) ("Generally, the moving party bears a heavy burden to show why a stay should be granted absent statutory authority, and a court should tailor its stay so as not to prejudice other litigants unduly.").

Generally, stays pending appeal deal with staying the execution of the judgment of the lower court, such as injunctions. The stay is granted because to enforce the injunction may irreparably harm a party. Such compelling needs do not exist where a stay is sought to delay trial

on other issues. All of the cases found which dealt with attempts to stay trial pending appeal have denied the request for a stay. *See, United States v. Zuger*, 602 F. Supp. 889, 892 (D. Conn. 1984), *aff'd*, 755 F.2d 915 (2d Cir. 1985) (denied defendant's motion for stay pending appeal of motion to dismiss); *Ford v. Termplan, Inc. of Georgia*, 528 F. Supp. 1016, 1022 (N.D. Ga. 1981) (denying stay pending appeal of similar case involving same defendant); *cf. McKenzie by Gallant v. Heckler*, 665 F. Supp. 1217, 1220 (D. Minn. 1985) ("A motion under Fed. R. Civ. P. 60(b) [for reconsideration] does not justify a stay."); *In re Midwest Milk Monopolization Litigation*, 0 F.R.D. 12, 13-14 (W.D. Mo. 1973) (discovery not stayed pending ruling on summary judgment motion); *Indian Lake Estates, Inc. v. Lichtman*, 27 F.R.D. 417, 418 (D.D.C. 1961) (granting motion to compel notwithstanding pending summary judgment motion that defendant claimed would "render moot the question raised by Plaintiff's motion [to compel]").

Plaintiffs have not satisfied their burden of showing a compelling need for a stay. That the appeal may moot Irwin's counterclaims can, at best, be interpreted as a claim that plaintiffs will have to incur litigation costs that may be unnecessary if plaintiffs prevail on appeal. This contention is wrong and would not justify a stay even were it true. Litigation costs do not rise to the level of "irreparable injury" for the purposes of warranting a stay pending appeal. *McSurely v. McClennan*, 697 F.2d 309, 317 n.13 (D.C. Cir. 1982). More important, there are no costs that may be avoided by the appeal.

Even if plaintiffs' basic premise—that success on their appeal will moot Irwin's counterclaims—is correct, the antitrust and misuse issues will remain in this case. Irwin has alleged as affirmative defenses that plaintiffs misused their copyrights by violating the antitrust laws and using improper warning labels on their videotapes and discs. Even if plaintiffs ultimately prevail on the public performance issue on appeal, they still cannot recover. The law

specifically provides that a copyright holder cannot enforce its copyrights if it has violated the antitrust laws or has misused its copyrights. *E.g., Broadcast Music, Inc. v. Moor-Law, Inc.*, 203 U.S.P.Q. 487, 488 (D. Del. 1978). The basic facts and issues raised by these affirmative defenses are in large part the same facts and issues raised by Irwin's counterclaims even if plaintiffs prevail on their appeal.

Accordingly, discovery on and resolution of these issues will be required regardless of the outcome of plaintiffs' appeal. If the Court's opinion is upheld on appeal, these issues must be tried as part of Irwin's counterclaims. If the Court of Appeals reverses, even assuming that the counterclaims are rendered moot, these issues must still be considered in determining whether plaintiffs are precluded from enforcing their copyrights because of their misuse. There is, therefore, no judicial economy to be realized. Rather a stay would only delay discovery and resolution of these issues.

The equities favor not granting a stay. Plaintiffs have not, and cannot, identify any hardship in going forward with the counterclaims. On the other hand, a stay would increase the risk that Irwin would be forever precluded from obtaining the necessary information in support of its counterclaims and affirmative defenses. Memories fade and documents are destroyed or lost as time passes. To grant the stay, therefore, would likely result in "irreparable" hardship on Irwin, rather than on plaintiffs.

Finally, plaintiffs have not cited a single case that deals with a stay pending appeal. Rather, all but two of the cases plaintiffs cite concern the Court's authority to issue stays pending completion of arbitration. These cases are inapposite because, unlike this case, the stay was directed to first allow arbitration of the very claims before the court. Plaintiffs here seek to stay independent claims. None of the policies favoring stay in the cases cited by plaintiffs are applicable here. Moreover there is a specific statutory

requirement that the courts stay trial until arbitration is completed if a contract in dispute requires arbitration. Specifically, the statute provides that a court "shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement . . ." 9 U.S.C. § 3 (1982). Even in arbitration, however, discovery continues under the arbitration so that the case does move forward.

Plaintiffs cite *Landis v. North American Co.*, 299 U.S. 248, 57 S. Ct. 163 (1936). In that case, the Supreme Court vacated a stay. The case involved an issue that was also raised in forty-six other cases pending before thirteen other courts. The district court issued a stay until a "test" case was tried and appealed. The Supreme Court vacated the stay ruling that the stay until completion of the appeal in the test case was unreasonable.

We are satisfied that the results of a fair discretion are exceeded in so far as the stay is to continue in effect after the decision by the District Court in the suit against the Bond & Share Company and until the determination by this court of any appeal therefrom. Already the proceedings in the District Court have continued more than a year. With the possibility of an intermediate appeal to the Circuit Court of Appeals, a second year or even more may go by before this court will be able to pass upon the Act. Whether the stay would have been proper if more narrowly confined will be considered later on. For the moment we fix the uttermost limit as the date of the first decision in the suit selected as a test, laying to one side the question whether it should even go so far.

Id. at 256-57, 57 S. Ct. at 167. The Court went on to remand the case to allow the district court to determine whether—even a limited stay that would stay trial only

until the test case was initially decided was warranted. *Id.* at 258-59, 57 S. Ct. at 167-68.

The only other case cited by plaintiffs on the issue of stays, *Baxter Travenol Laboratories, Inc. v. LeMay*, 536 F. Supp. 247 (S.D. Ohio 1982), did not involve a stay pending appeal. Rather, the court simply bifurcated the trial of the counterclaims from the plaintiffs' claims. That result has already been accomplished in this case by partial summary judgment. Moreover, the court in *Baxter Travenol* did not stay all of the proceedings on the counterclaims; discovery continued. *Id.* at 253. Plaintiffs have already had an opportunity to be heard on their claims and lost. Irwin seeks an equal opportunity to pursue its claims.

Plaintiffs have provided no legal or factual support for their motion. There is no judicial economy to be realized. Nor do plaintiffs face any irreparable harm if the stay is denied. To the contrary, the equities favor allowing Irwin to pursue its counterclaims and to obtain through discovery information and documents before they are lost, forgotten, or destroyed.

II.

PLAINTIFFS' MOTION IS BASED UPON A MISINTERPRETATION OF IRWIN'S COUNTERCLAIMS

Plaintiffs base their motion entirely on the contention that action on Irwin's counterclaims should be stayed simply because plaintiffs believe that these counterclaims may become moot if plaintiffs prevail on their appeal. Plaintiffs' argument misconstrues Irwin's counterclaims. Plaintiffs claimed that Irwin's counterclaims are based upon one central assertion: that plaintiffs' suit against Irwin was a sham. *Plaintiffs' Memo* at 3. Plaintiffs then contend that if they prevail on their appeal, the suit cannot be considered a "sham" and therefore Irwin's claims fail as a matter of law. Plaintiffs are incorrect on both the facts and the

law. Even were plaintiffs to prevail, the counterclaims, and more importantly the affirmative defenses, would not be automatically mooted.

Plaintiffs contend that "[t]he crux of defendants' counterclaim is that plaintiffs filed this law suit." To the contrary, as identified numerous times to plaintiffs' counsel, Irwin's basic antitrust claim is that the plaintiffs individually, and in concert with others, attempted to restrict the development of a rental market for videotapes and video-discs, especially for use in resorts, hotels, and similar facilities. Plaintiffs undertook this action in order to maintain a monopoly over the distribution of motion pictures to such facilities.

This lawsuit, however, is not the only action undertaken by the plaintiffs in perpetrating its antitrust scheme. Irwin understands that in addition to this action: (1) plaintiffs have filed or threatened to file other actions to prevent the development of a rental market; (2) plaintiffs have restricted their licensed distributors from selling to businesses that rent videodiscs and tapes; (3) plaintiffs have misused their copyrights by inserting threatening notices on videodiscs and tapes that state the viewing of the video is restricted to "home use" only, and that non-home use will subject the user to civil and criminal penalties (to impress on the viewer the seriousness of the threat, an FBI symbol is displayed); and (4) plaintiffs, through their trade associations, used other threatening action such as placing advertisements in hotel trade journals warning the hotel against "stealing" plaintiffs' copyrights by renting or using videos. Recently, Irwin learned that plaintiffs may also discriminate among their licensees by charging different license fees to different distributors. Such discrimination may be used to punish distributors that sell to businesses that rent videos. Moreover, such price discrimination is by itself a violation of the antitrust laws.

Plaintiffs' actions constitute a conspiracy to restrain trade in the marketing of videos to hotels and resorts in violation of Section 1 of the Sherman Act (15 U.S.C. § 1) and the California Cartwright Act (Cal. Bus. & Prof. Code §§ 16,700, *et seq.*), and an attempt and a conspiracy to monopolize the movie market in hotels and resorts in violation of Section 2 of the Sherman Act (15 U.S.C. § 2) and the Cartwright Act. In addition, plaintiffs' discriminatory pricing would violate California's Cartwright Act (Cal. Bus. & Prof. Code §§ 16,700, *et seq.*) and fair competition statutes. Cal. Com. Code §§ 1203, 3294. Irwin's contentions go far beyond a simple allegation that plaintiffs brought this suit against Irwin in bad faith.

Plaintiffs' argument that Irwin can prevail on their antitrust counterclaims only if it can show that the plaintiffs' suit against it was brought in bad faith cannot withstand analysis. Plaintiffs' basic premise is that, under a doctrine called *Noerr-Pennington*, they have a right to institute lawsuits. *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965). This right, however, does not extend to "sham proceedings," which are instituted to interfere with the business of competitors. *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1251-54 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983).

Where plaintiffs' argument fails is in interpreting what constitutes a sham proceeding. Plaintiffs argue that, in order to show this suit was a sham, Irwin must first prevail on the copyright infringement claims of plaintiffs, and then prove that plaintiffs brought the suit without probable cause or in bad faith. The plaintiffs are correct that *one* way of showing a lawsuit is a sham in violation of the antitrust laws is to show that the suit was meritless and brought without probable cause. It is not, however, the only way of showing that litigation is part of an illegal antitrust scheme. *Associated Radio Serv. Co. v. Page Air-*

ways, Inc., 414 F. Supp. 1088, 1095 (N.D. Tex. 1976), *aff'd in part*, 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981).

Litigation can also be shown to be sham where the lawsuit was brought as part of a scheme to achieve "some collateral objective." *Chest Hill Co. v. Guttman*, 1981-2 Trade Cas. (CCH) ¶ 64,47 (S.D. Ohio 1981). The court in *Chest Hill* explained that:

However, the plaintiff must show that the defendant instituted the litigation with the purpose of achieving a "collateral" objective, and that he committed a specific act—other than those acts incidental to the normal use of the court or agency—directed at attaining that objective. . . . Abuse of process rests on the theory that no legitimate social interest is served by allowing the employment of *even meritorious litigation by the defendant when his real aim is the nonadjudicatory objective*, and when proof of specific conduct taken to achieve that objective limits theangers of inquiry into his subjective purpose.

Id. at p. 75,058, quoting *Associated Radio Serv. Co. v. Page Airways, Inc.*, 414 F. Supp. 1088, 1096 (N.D. Tex. 1976), *aff'd in part*, 624 F.2d 1342 (5th Cir. 1980), *cert. denied*, 450 U.S. 1030 (1981) (emphasis added). This is basically what happened in the case in *California Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), in which the defendants instituted and threatened to institute adjudicatory proceedings opposing any and all applications by their competitors for issuance or transfer of motor carrier certificates. Although most of the defendants opposition were baseless, some appeared to have merit. This, however, did not shield them from the consequences of their anticompetitive activity.

The *Noerr-Pennington* exception to antitrust liability is not applicable where the "protected" activity, such as fil-

ing a lawsuit, is part of a larger scheme in violation of the antitrust laws. *Scott v. City of Sioux City, Iowa*, 1982-83 Trade Cas. (CCH) ¶ 65,203 at p. 71,847 (N.D. Iowa (1982) ("Where legitimate lobbying is combined with illegal action, the *Noerr-Pennington* exception has no application"); *Antitrust Law Developments (ABA)* at 615-14 (2d Ed. 1985) (and cases cited therein), *cf.*, *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983).

In the present case, plaintiffs are engaged in a pattern of activity designed to violate the antitrust laws. Specifically, plaintiffs have tried to enlarge their copyright monopoly by eliminating the market for rental of videodiscs and videotapes especially to hotels, resorts, and similar facilities. This lawsuit is only part of plaintiffs' scheme to achieve their "collateral" objective of monopolizing the market for distributing films to hotels, resorts, and other facilities.

Accordingly, plaintiffs' basic premise for the stay requested—that Irwin's counterclaims are based solely on a claim of sham litigation—is simply not true. Moreover, as explained above, the issues raised by the counterclaim are in large part also raised by Irwin's affirmative defenses. There is, therefore, simply no reason to stay the proceedings on Irwin's counterclaims.

III.

A STAY OF DISCOVERY PENDING APPEAL IS INAPPROPRIATE

Plaintiffs failed to seek a stay of discovery under Fed. R. Civ. P. 26(c) and thereby have arguably waived such a stay. To the extent that plaintiffs' motion is construed to seek a stay of discovery, such a stay is unsupportable. Plaintiffs have not cited a single case or any justifiable reason to stay discovery.

Plaintiffs principally rely upon the decision in *Baxter Travenol Laboratories, Inc. v. LeMay*, 536 F. Supp. 247 (S.D. Ohio 1982). In that case, the district court granted a motion to bifurcate the plaintiffs' claims from the defendants' counterclaims. In granting the motion to bifurcate, the court considered the status of discovery on the defendant's counterclaims.

In addition, Defendant has acknowledged (doc. # 152, pp. 12-13) that discovery for the antitrust counterclaim cannot be completed until the Sixth Circuit rules on this Court's decision of May 20, 1981, permitting Warnick to claim the attorney-client privilege when asked certain questions by Defendant. That decision, on interlocutory appeal, *see*, 514 F. Supp. 1156 (S.D. Ohio 1981), has not been ruled upon, on appeal, at this writing.

Id. at 253. Far from staying discovery in the defendant's counterclaims, the court recognized that the discovery would continue.

In cases where courts have stayed trial on bifurcated counterclaims, the courts have rejected any stay of discovery. For example, in *Johnson & Johnson v. Kimberly-Clark Corp.*, 28 Fed. R. Serv. 2d 370 (E.D. Wisc. 1978), a case involving claims of patent infringement, with antitrust and unlawful trade practices counterclaims based upon a claim of patent invalidity, the court ordered separate trials for the infringement claim and the counterclaims. The court specifically rejected a motion to stay discovery on the counterclaims until completion of the infringement trial. In so holding, the court noted:

... I believe it would be unrewarding to have a long hiatus between the two trials to accommodate the discovery needed for preparation for the second trial. Under all the circumstances, I find that the motion to stay discovery should be denied.

Id. at 372; *accord*, *U.S. Industries, Inc. v. Procter & Gamble Co.*, 17 Fed. R. Serv. 2d 1212, 1213 (S.D.N.Y. 1973); *Alarm Device Mfg. Co. v. Alarm Products International, Inc.*, 60 F.R.D. 199, 203 (S.D.N.Y. 1973).

There is no basis for a stay of discovery. The information and documents sought are relevant to both Irwin's counterclaims and affirmative defenses. The outcome of plaintiffs' appeal will not effect the need for this information. Once the appeal is completed, regardless of its outcome, these issues will have to be decided. To stay discovery will only cause needless delay.

IV.

PLAINTIFFS' MOTION IS PROCEDURALLY DEFECTIVE

To the extent that plaintiffs seek a stay of discovery, they failed to comply with this Court's rules. Specifically, Rule 7.15.1 requires plaintiffs to arrange and conduct a meeting of counsel to discuss this dispute prior to filing a motion. Furthermore, under Rule 7.15.2, plaintiffs are required to formulate a written stipulation setting forth the positions of each party. Plaintiffs failed to comply with either of those rules. Plaintiffs did not request a conference in writing as required by Local Rule 7.15.1 nor did they attempt to secure from Irwin a stipulation.

Plaintiffs' failure is more than form over substance. First, if plaintiffs did not intend to seek a stay of discovery, this could have been clearly articulated in the required stipulation. If they did, Local Rule 7.15.1 required plaintiffs to so state in their request for a meeting of counsel to discuss such a stay. Second, in discussing Irwin's outstanding discovery requests and their motion to compel, plaintiffs asked Irwin's counsel, Mr. King, if Irwin would consider a stay of discovery and trial on the counterclaims. Mr. King indicated that Irwin would not agree to a stay of discovery, but would consider a stay of trial once discovery

was completed. Plaintiffs did not pursue this matter, so no further discussions were held.

Plaintiffs' failure to follow the rules of this Court preclude any ruling on their motion as it may pertain to discovery. Irwin respectfully requests that plaintiffs' motion be stricken, insofar as it pertains to discovery, for plaintiffs' violation of this Court's Local Rules. This is not plaintiffs' first rule violation and should not be tolerated.

CONCLUSION

Plaintiffs have not provided any justification for a stay pending appeal. There is no judicial economy to be realized by a stay. Plaintiffs do not identify any harm in going forward with Irwin's counterclaims. Having had the opportunity to be heard on their claims, it is inappropriate to deny Irwin an equal opportunity to be heard. For the foregoing reasons, Irwin respectfully requests that the Court deny plaintiffs' motion for a stay.

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNES

By: /s/ JW King
Jeffrey W. King
Attorneys for Defendants/Counter-
claimants

Dated: March 13, 1986

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

v.

AND RELATED COUNTERCLAIM

REPLY MEMORANDUM OF DEFENDANTS AND COUNTERCLAIMANTS IN SUPPORT OF MOTION TO COMPEL PRODUCTION OF DOCUMENTS AND FOR EXPENSES AND ATTORNEYS' FEES; DECLARATIONS IN SUPPORT THEREOF

Hearing Date: March 24, 1986

Hearing Time: 10:00 a.m.

Hearing Place: Courtroom 23

FILED

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

BY _____

[Table of Contents omitted in this printing]

[Table of Authorities omitted in this printing]

**REPLY MEMORANDUM IN SUPPORT OF MOTION TO
COMPEL PLAINTIFFS AND COUNTERDEFENDANTS TO
PRODUCE DOCUMENTS**

INTRODUCTION

This memorandum is respectfully submitted on behalf of defendants and counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively "Irwin"), in response to the opposition of plaintiffs and counterdefendants (collectively "plaintiffs") to Irwin's motion to compel. There is one principal flaw in plaintiffs' opposition: they ignore Irwin's proposed stipulation of issues which, as required by the Court's rules, fully sets forth Irwin's position on the discovery disputes. Instead, plaintiffs base their opposition on their own interpretation of an exchange of letters that occurred midway through the negotiations. As explained more fully below, plaintiffs themselves repudiate the "agreement" on the issues allegedly reached in those letters by adding issues and other limitations not set forth in the letters. As a result, plaintiffs' opposition is not responsive to a number of the issues articulated in Irwin's motion and necessitates a longer than usual reply.¹ Notwithstanding this shortcoming, Irwin addresses the four basic arguments raised in plaintiffs' opposition. Even with plaintiffs redefining the issues, their contentions lack merit.

Plaintiffs first argue that it is Irwin, not plaintiffs, that has failed to cooperate in resolving the discovery issues. This argument is little more than an attempt to divert the Court's attention from the real issues—Irwin's need for and right to meaningful discovery. There is no need to

¹ Plaintiffs' opposition was also served late on Irwin and cut off almost half the time Irwin had to respond to the opposition. This fact also makes it difficult for Irwin to make its reply memorandum brief. See Blaise Pascal, *Letters Provinciales*, xvi (1657) ("I have made this letter longer than usual, only because I have not had the time to make it shorter").

debate plaintiffs' "cooperation." Plaintiffs cannot avoid the facts that Irwin's requests were served over a year ago; this motion was not filed until a full two months after Irwin requested the meeting of counsel to try to resolve these issues and two and a half weeks after serving plaintiffs with a proposed stipulation; and plaintiffs have produced, at best, only six documents responsive to the requests concerning Irwin's counterclaims.

Plaintiffs' second, and principal argument, is that they need not produce documents under the "Noerr-Pennington" doctrine. Plaintiffs devote the majority of their memorandum to explaining the merits of their "Noerr-Pennington" affirmative defense. That doctrine, however, provides limited antitrust immunity and is not a basis for refusing to produce documents. Moreover, plaintiffs' "Noerr-Pennington" claim has been waived as a result of plaintiffs' failure to raise it until more than a year after their responses to Irwin's discovery requests were due.

Third, plaintiffs object to Irwin's requests on grounds of burden, arguing that the requests should be limited to documents pertaining to the rental of videos at hotels, to documents located at plaintiffs' "home offices," and to documents prepared between February 1, 1980 and February 1, 1984. These restrictions, however, which were imposed for the first time just a month ago, would render Irwin's request meaningless and effectively eliminate any responsive documents. Plaintiffs do not attempt merely to reduce the burden; they proposed to eliminate the production.

Fourth, plaintiffs object to the production of license agreements on the grounds of relevancy and confidentiality. The documents are undisputedly relevant. As to confidentiality, a confidentiality agreement is already in place—an agreement under which Irwin produced documents. This agreement actually provides greater protection than the protective order proposed by plaintiffs. Plaintiffs' claim of

confidentiality has become an excuse, not a reason, for refusing to produce responsive documents.

One need only consider what plaintiffs have produced in order to understand their total lack of cooperation and the inadequacies of their responses to the document requests. Plaintiffs have refused to produce any documents responsive to nineteen of the twenty-one requests relating to Irwin's counterclaims. They produced the few documents responsive to the remaining two requests only because those requests also related to plaintiffs' claims as well as to Irwin's counterclaims. Even for those two requests, production was incomplete. All eight plaintiffs together have produced only six documents relating to the counterclaims. Of the documents produced in response to the counterclaim document requests, two are annual reports, one is an employee magazine, and three are copyright notice labels from two videotapes and one videodisc. A review of plaintiffs' arguments further underscores the inadequacy of their response to Irwin's requests for documents.²

STATEMENT OF FACTS

Plaintiffs' opposition is plagued by omissions of fact, by misrepresentations of the events that have transpired between the parties in attempting to resolve these discovery disputes, and by plaintiffs' refusal to address the issues. On the basis of these omissions and misrepresentations, plaintiffs have attempted to paint a rosy picture of the discovery negotiations that have transpired; this picture,

² Plaintiffs claimed they have produced "almost 900 pages of documents." *Plaintiffs' Memorandum in opposition to Defendants' Motion to Compel* at 1 (hereinafter "*Plaintiffs' Opposition Memo*"). This is misleading because all of the documents produced (except for the few identified above) were copies of copyright registrations and plaintiffs' proof of ownership of those registration.

unfortunately, is belied by the harsh reality of plaintiffs' failure to produce documents.

It is unnecessary to debate plaintiffs' contentions because they add little to the basic issue before the Court—the scope of discovery to which Irwin is entitled.³ Nonetheless, a few clarifications are appropriate.

1. Contrary to plaintiffs' implications, the Court did not deny Irwin's prior motion to compel. Rather, the Court, in light of plaintiffs' retaining new counsel, requested the parties to work together to resolve the disputes and imposed a ten-day limit on plaintiffs to respond. *See Reporter's Transcript*, at 18/19-22, and 9/18-10/17 (September 18, 1985) (attached hereto as Exhibit 9). Moreover, the Court did not rule that Irwin's original requests were too broad. Rather the Court indicated that Irwin would have to narrow the requests if discovery on the antitrust counterclaims was to proceed prior to summary judgment. The Court stated further that if Irwin decided to proceed on the broad requests, it would have to wait until after the summary judgment motions were filed and resolved. Specifically, the Court noted that:

Then to the extent that you [plaintiffs] find the discovery request with respect to antitrust not to be unduly burdensome, I commend to you that you give it to them because I'll probably require it anyway, not being willing to defer consideration of antitrust until we hear our summary judgment motion.

³ Irwin set forth the basic pertinent facts in its memorandum in support of its motion to compel and will not repeat them here. However, so that plaintiffs' misrepresentations do not go uncorrected, a full recitation of the facts is provided in the Supplemental Declaration of Patrick J. Coyne, Counsel for Irwin, to which the Court may refer for additional information. (Attached hereto as Exhibit 8.) Exhibits 1-7 were attached to Irwin's Motion to Compel.

On the other hand, I tell you, Mr. King, that if the court concludes that it is burdensome, I will *defer* it.

Reporter's Transcript at 17/13/21. (Emphasis added)

Irwin, given that plaintiffs had new counsel, relaxed the ten-day schedule imposed by the Court to resolve these issues. Irwin ultimately held off on the request until the cross summary judgment motions were decided in light of plaintiffs' representations that they would likely settle if they lost on their summary judgment motion. *See Reporter's Transcript* at 13/10-14/2.

2. Plaintiffs argue that Irwin "brought the first motion [to compel] without even attempting to discuss the discovery issues with plaintiffs' newly retained counsel." *Plaintiffs' Opposition Memorandum* at 1. Irwin, however, filed its first motion to compel before plaintiffs' new counsel was even retained. At oral argument on that motion, which was held over five weeks after Irwin filed the motion, plaintiffs' new counsel informed the court they had been retained "about three-and-a half weeks" ago. *Reporter's Transcript* at 8/3-13. Plaintiff's last minute switch of counsel prior to the hearing did not erase the eight months of total refusal to cooperate that preceeded the filing of that motion. Unfortunately, plaintiff's change of counsel has also not resulted in any meaningful or substantive change in plaintiffs' unwillingness to produce documents.

3. Plaintiffs' opposition conveniently omits any mention of the efforts taken by Irwin pursuant to Local Rule 7.15.1 (meeting of counsel) through 7.15.4 (proposed stipulation) to resolve the outstanding discovery disputes. Plaintiffs' omission parallels their refusal to respond in accordance with those rules. On January 3, 1986, pursuant to Local Rule 7.15.1, Irwin requested a conference within ten days to resolve the outstanding discovery disputes. The conference was delayed until January 25, 1986, at the request of plaintiffs' counsel.

After some negotiation, plaintiffs' counsel announced on February 12, 1986 that plaintiffs were not going to produce any documents at this time regardless of what agreement could be reached narrowing the requests. Plaintiffs also interposed several new objections (the "Noerr-Pennington" objection, a limitation on production to review only "home office" files, and a limitation on production to only documents prepared between February 1, 1980 and February 1, 1984). Accordingly, on February 14, 1984, 42 days after the Rule 7.15.1 conference had been requested, Irwin's counsel hand delivered a proposed stipulation setting forth the outstanding discovery issues as required by Rule 7.15.2. Under Local Rule 7.15.2 and 7.15.4, plaintiffs were required to respond to and enter into the proposed stipulation within seven days. Plaintiffs, however, failed to respond within the time required and even refused to discuss their objections to the stipulation over the telephone thirteen days later. Rather, plaintiffs announced that they would prepare a written response at some time in the future.

The Local Rules set forth reasonable time limits for the parties to respond to and try to resolve discovery disputes. Irwin has continually extended those deadlines to accommodate plaintiffs. There is a limit to this courtesy and it was reached here. Irwin filed its motion on March 3, 1986, fourteen months after serving the requests, two months after requesting the Rule 7 meeting, and two and a half weeks after it served upon plaintiffs the proposed stipulation.

4. Plaintiffs have attempted to frame the issues by picking and choosing from among the negotiations only those documents that support them. They rely on a letter from plaintiffs to Irwin dated January 27, 1986. They include in their reconstruction of the issues only one element of Irwin's response to their letter dated January 29, 1986. Plaintiffs cannot, however, rely on their unilateral framing of the issues in their January 27 letter. That letter does

not raise or discuss plaintiffs' subsequent assertions of the "Noerr-Pennington" objection, the restriction of the search to "home offices," or the limitation that only documents prepared between February 1, 1980 and February 1, 1984 will be produced. Accordingly, plaintiffs are forced to incorporate material from their letter to Irwin dated February 11, 1986, in which these objections and limitations were raised for the first time. Plaintiffs ignore Irwin's response—the proposed stipulation. In so doing, they have ignored the course of the negotiations and created artificial "issues" that reflect only their own positions.

Plaintiffs, therefore, base their entire opposition on their two letters and a portion of Irwin's correction of one of those letters. *Plaintiffs' Opposition Memo* at 8 n.3. Plaintiffs prepared Appendix 1 identifying each issue and the position taken in each letter. A review of the Appendix highlights the shortcoming in plaintiffs' contention. Plaintiffs' positions in the second letter are more restrictive than their original proposals. More significantly, the Appendix does not even mention Irwin's proposed stipulation; a stipulation which, as required by the rules, sets forth in detail both parties' positions.

By ignoring the stipulation and relying on interim letters between the parties, plaintiffs raise straw man arguments that Irwin is attempting to expand the document requests rather than narrow them. Irwin has substantially narrowed the requests. Plaintiffs, however, simply have not accepted Irwin's proposed narrowing. Plaintiffs' arguments, therefore, are fundamentally unresponsive to Irwin's motion.

ARGUMENTS

I.

PLAINTIFFS HAVE WAIVED A NUMBER OF THEIR OBJECTIONS BY FAILING TO RESPOND

In their opposition, plaintiffs ignore many of the points raised in Irwin's motion.⁴ Plaintiffs failed even to acknowl-

⁴ Plaintiffs' opposition was not properly served on Irwin's counsel.

edge the issues as set forth in Irwin's proposed stipulation sent to plaintiffs on February 14, 1986, or Irwin's motion to compel. In view of plaintiffs' failure to respond, Irwin respectfully requests that the Court order the production of the following categories of information:

1. *Organizational Charts.* Plaintiffs should be required to produce all corporate-organizational information for that portion of the corporate structure of each plaintiff involved in the produc-

Pursuant to the "Stipulation Concerning Briefing Schedule on Motions Presently Before the Court," all opposition papers were required to be served by hand on or before March 14, 1986. That Stipulation was entered to accommodate plaintiffs' request for additional time to respond to Irwin's motions. Plaintiffs were granted an additional week to prepare their oppositions, leaving Irwin only two business days and a total of four days to reply. Irwin, in effect, agreed to work all weekend to accommodate plaintiffs.

Plaintiffs did not serve their opposition prior to close of business on March 14, 1986. Irwin made repeated inquiries concerning the opposition, but plaintiffs' counsel refused to accept the calls or talk to counsel for Irwin. Finally, after Irwin's counsel left a message explaining that he would not accept late service, plaintiffs telecopied a copy of the opposition. Plaintiffs, however, failed to send a complete copy, including only the Memorandum of points and Authorities and Appendix 1. The telecopy was received at approximately 8:00 p.m. Plaintiffs' remaining exhibits and declaration were not received on March 14, 1986. Finally at 10:00 p.m., Saturday night, March 15, 1986, plaintiffs delivered a complete copy of their opposition to Irwin. Irwin, in contract, served its opposition to plaintiffs' motion for a stay early on Friday, March 14, 1986, to afford plaintiffs an opportunity to work on their reply memorandum on Friday given the shortened time to reply.

Plaintiffs' tardiness has adversely affected Irwin's ability to respond by eliminating Friday and Saturday to prepare its response. Accordingly Irwin respectfully requests that the Court strike plaintiffs' opposition for defective service. Rather than burden the Court with yet another motion and an ex parte application to shorten time, Irwin respectfully requests that this Court exercise its equitable powers to strike plaintiffs' opposition. Given that Irwin already had agreed to shorten its reply time to accommodate plaintiffs' schedule, the additional lost time to respond is unfair and unjustified.

tion or distribution of motion pictures, videodiscs, and videotapes.

2. *Communications Concerning Irwin.* Plaintiffs should be required to produce all communications concerning Irwin that are not held to be subject to plaintiffs' "Noerr-Pennington" objection, if the objection is sustained. (See Argument II, *infra*).
3. *Copyright Notices and Warning Labels.* Plaintiffs should be required to produce representative samples of warning labels used by each plaintiff on videodiscs and videotapes and all communications relating to the authorization to use and the use of such restrictions and the use of the FBI symbol in conjunction with those restrictions. In conjunction with this category of information, plaintiffs should be required to produce all documents that the Court finds are not protected by plaintiffs' alleged "Noerr-Pennington" privilege, if that objection is sustained. (See Argument II, *infra*.)
4. *Situs of Production.* Plaintiffs should be required to produce all documents responsive to the narrowed document requests at the offices of Irwin's local counsel, Michael J. Dennis Law Corporation, 510 West Sixth Street, Suite 910, Los Angeles, California.
5. *Attorney-Client.* Plaintiffs state in their opposition that they "agreed to produce a list of all documents withheld on such grounds and all information necessary to determine if such claims were appropriate." *Plaintiffs' Opposition* at 11. This is the minimum required, yet, plaintiffs have not provided this list for more than a year. Moreover, the attorney-client privilege has been waived for a number of documents. Plaintiffs, in their opposition to Irwin's motion for fees, argued that "plaintiffs brought and prosecuted the action only after con-

sulting and retaining three experienced copyright law firms. . . ." *Plaintiffs' Opposition to Irwin's Motion for Attorney Fees* at 8. By raising this argument plaintiffs themselves have placed their reliance on opinions or advice of counsel in issue. Having done so, any privilege to those opinions or advice is now waived. *Handgards, Inc. v. Johnson & Johnson*, 413 F. Supp. 926, 929 (N.D. Cal. 1976) ("[t]he deliberate injection of the advice of counsel into a case waives the attorney-client privilege as to communications and documents relating to the advice"); *International Telephone & Telegraph Corp. v. United Telephone Co. of Florida*, 60 F.R.D. 177, 185-186 (M.D. Fla. 1973) ("if the client . . . takes the stand and testifies to privileged communications in part this is a waiver as to the remainder of the privileged consultation or consultations about the same subject"). The courts have recognized that fundamental principles of fairness compel this result. *United States v. Exxon Corp.*, 94 F.R.D. 246 (D.D.C. 1981) (fairness to the opposing party requires full disclosure of the communications relied upon).

II.

PLAINTIFFS' NOERR-PENNINGTON OBJECTIONS ARE INVALID

Plaintiffs object to three of the seven narrowed document requests on the basis of the alleged "Noerr-Pennington" privilege. Specifically, they object to the production of: (a) documents to or from the Motion Picture Association of America ("MPAA") relating to the sale, rental, or use of videodiscs and/or videotapes (see Memorandum at 25-26 and attached stipulation at 131); (b) documents relating to plaintiffs' restrictive copyright notices and to plaintiffs' use of the FBI symbol (see Irwin's Mem-

orandum at 28-29 and attached stipulation at 132); and (c) documents relating to defendants (see Irwin's Memorandum at 30 and attached stipulation at 125).⁵

Plaintiffs' "Noerr-Pennington" objection is defective for two principal reasons. First, when plaintiffs filed their initial objections, they did not object to any of Irwin's document requests on the basis of the newly asserted "Noerr-Pennington" or "First Amendment" privilege. The "Noerr-Pennington" objection was made for the first time on February 11, 1986, and the "First Amendment" objection was first raised in plaintiffs' opposition memorandum on March 15, 1986.⁶ Rather than attempting in good faith to resolve the outstanding disputes, plaintiffs are enlarging them.

Plaintiffs, by failing to raise these objections within the time provided, have waived them. *Dollar v. Lawn Mfg. N.C., Inc.*, 561 F.2d 613 (5th Cir. 1977), cert. denied, 435 U.S. 996 (1978); *Renshaw v. Ravert*, 82 F.R.D. 361 (E.D. Pa. 1979). In spite of the fact that the plaintiffs' devoted over half of their opposition memorandum to the Noerr-Pennington issue, plaintiffs posit only one sentence with respect to waiver. Plaintiffs attempt to circumvent their unequivocal waiver by arguing that the doctrine has been raised through their relevancy objection.

⁵ Plaintiffs contend that the request for MPAA documents is also too broad and would require production of documents related to "piracy," "off-the-air recording," and many other unrelated topics. Irwin has already narrowed the request to eliminate production of such documents. Plaintiffs were informed of Irwin's willingness to narrow the request once plaintiffs explained the problem at least as early as the September hearing on Irwin's first motion to compel. See Reporter's Transcript at 15/13-20.

⁶ Plaintiffs also attempt to separate their First Amendment allegations from their Noerr-Pennington allegations. The "Noerr-Pennington" doctrine, however, is based on First Amendment principles, not independent of them. See *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1263 (9th Cir. 1982) ("Noerr immunity is based on the First Amendment right to petition and to seek to influence governmental action").

Relevancy and the alleged Noerr-Pennington privilege are based on entirely different grounds. Each flows from different principles and different criteria are employed in their application. See *Adolf Coors Co. v. Wallace*, 570 F. Supp. 202, 207 (N.D. Cal. 1983). Even assuming plaintiffs' alleged "Noerr-Pennington" privilege exists, plaintiffs' original relevancy objection in no way contemplated resisting discovery on the basis of a "Noerr-Pennington" or First Amendment privilege. Rather, plaintiffs' relevancy objection was based solely on relevancy to the subject matter of this litigation. Fed. R. Civ. P. 26(c). This objection was discussed repeatedly with plaintiffs' prior counsel and with plaintiffs' present counsel; yet, they never mentioned this new interpretation until more than 13 months after plaintiffs' objections were due.

A relevancy objection is not a nose of wax that can be twisted into any other objection plaintiffs may have wished they or their prior counsel had raised. The time for raising objections to the document requests has long since passed. Irwin's willingness to narrow the requests in no way provides plaintiffs additional opportunities to raise new, untimely objections. Plaintiffs did not raise their "Noerr-Pennington" objection when they had the opportunity and may not do so now.

There is a second serious flaw in plaintiffs' claim of "Noerr-Pennington" privilege. The "Noerr-Pennington" doctrine is a defense, not a privilege against production of documents. *North Carolina Electric Membership Corp. v. Carolina Power & Light Co.*, 666 F.2d 50, 53 (4th Cir. 1981); see also, *Associated Container Transportation (Australia) Ltd. v. United States*, 705 F.2d 53, 60 (2d Cir. 1983). The authority cited by plaintiffs in support of their alleged Noerr-Pennington privilege is largely inapposite. Over half of plaintiffs' argument is devoted to this one objection. Eleven of the nineteen cases cited by plaintiffs are used in support of this argument. Of the eleven Noerr-Pennington cases cited by plaintiffs, only three even ad-

dress discovery. All three support Irwin's position that, even were such a privilege properly raised, it would not provide a documentary privilege against production in this case.

In *North Carolina Electric Membership Corp. v. Carolina Power & Light Co.*, 666 F.2d 50 (4th Cir. 1981), the district court held that defendants would not be required to produce documents allegedly protected by the "Noerr-Pennington" Doctrine. The fourth Circuit reversed stating "We hold that the Noerr-Pennington exemption from antitrust liability does not extend to discovery of evidence, and therefore we reverse." *Id.* at 51. The court went on to state:

There is no authority for fitting the Noerr-Pennington Doctrine into the "privilege" exception to the rule. Nor is there any question that discovery of this material may lead to admissible evidence. Indeed, the *Pennington* decision allows at least some of that evidence to be admitted at trial if accompanied by a proper jury instruction.

Id. at 53; see also, *Associated Container Transportation (Australia) Ltd. v. United States*, 705 F.2d 53, 60 (2d Cir. 1983) (production ordered).

The only tangentially pertinent precedent cited by plaintiffs is *Australia/Eastern U.S.A. Shipping Conference v. United States*, 537 F. Supp. 807 (D.C.C. 1982), and *Adolf Coors Co. v. Wallace*, 570 F. Supp. 202 (N.D. Cal. 1983), in which the court balanced the need for the information against the potential chilling effect of disclosure on protected rights. Even these cases, however, conclusively establish that plaintiffs' Noerr-Pennington privilege would lack merit. In both cases, the court required that the privilege be properly raised. Plaintiffs have not done so. Nor have plaintiffs even attempted to explain how any balancing would weigh in their favor.

Any privilege which may exist under the "Noerr-Pennington" Doctrine is based on First Amendment rights. No First Amendment interests are implicated in this case. Plaintiffs simply cannot show the requisite probability that disclosure will lead to reprisal or harassment. *Adolf Coors*, 570 F.Supp. at 210. Irwin has no power to threaten or chill the exercise of any First Amendment right by plaintiffs. Particularly in view of plaintiffs' size and aggressiveness self-censorship is highly unlikely.

In contrast to the minimal showing made by plaintiffs, Irwin's need for the information is substantial. The documents requested by Irwin relate directly to specific suspected violations of the antitrust laws. Irwin has provided on numerous occasions detailed explanations of its antitrust counterclaims. In *Australia/Eastern*, the case principally relied upon by plaintiffs, the court noted that:

In civil discovery the court has the benefit of a complaint alleging specific violations against which to measure the relevance of the request. If respondents were to make a showing at the investigative stage of the material sought is strongly needed to confirm or prove specific suspected violations of the antitrust laws, the balance could tip in their favor.

537 F.Supp. at 812.

Far from providing a privilege against discovery, the "Noerr-Pennington" doctrine may actually result in a waiver of plaintiffs' attorney-client privilege and work product doctrine. For example, in *Handguards, Inc. v. Johnson & Johnson*, 413 F. Supp. 926 (N.D. Cal. 1976), a private antitrust action, it was alleged that the defendant attempted to restrain trade by bringing patent infringement suits in bad faith. The defendant asserted that the prior lawsuits were brought on the basis of competent legal advice. The court held that defendant had waived the privilege for documents bearing on the purpose of the lawsuits

and on defendant's good faith in maintaining them. *Id.* at 929; see also, *Panther v. Marshall Field & Co.*, 80 F.R.D. 718 (N.D. Ill. 1978) (where defendants in shareholder suit for violation of proxy rules and breach of fiduciary duty asserted that counsel advised them that a particular transaction would violate the antitrust laws, privilege waived as to communications relating to that issue); *International Paper Co. v. Fibreboard Corp.*, 63 F.R.D. 88 (D. Del. 1974) (submission of counsel's affidavit stating that patent examiner had advised him that client's patent rights were superior to opponent's waived the privilege as to all details of the meeting between the attorney and the client in which this information was conveyed).

Plaintiffs have already put in issue the advice of their attorneys. As explained above, plaintiffs opposed Irwin's motion for attorneys' fees in part on the grounds that "plaintiffs opposed Irwin's motion for attorneys' fees in part on the grounds that 'plaintiffs brought and prosecuted the action only after consulting and retaining three experienced law firms. . . .'" *Plaintiffs' Opposition to Irwin's Motion for Attorneys' Fees* at 8. As a result, "Noerr-Pennington" does not provide plaintiffs with an excuse to refuse to produce documents; instead, it compels plaintiffs to produce documents.

Rather than directly address whether the "Noerr-Pennington" doctrine provides an evidentiary privilege, plaintiffs argue the applicability of "Noerr-Pennington" as an affirmative defense. The merits of plaintiffs' defense are not properly raised in a discovery motion. Accordingly, the bulk of the case law cited by plaintiffs is simply inapposite.⁷ The Noerr-Pennington doctrine does not provide a privilege to resist discovery.

⁷ Moreover, the case law cited by plaintiffs demonstrates that, even in a trial on the merits, plaintiffs' "Noerr-Pennington" defense will be unavailing. For example, in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 512 (1972), the Supreme Court has noted that,

III.

PLAINTIFFS' OBJECTIONS, BASED ON RELEVANCY, AND BURDEN HAVE NOT BEEN ADEQUATELY SUPPORTED AND MUST BE OVERRULED

Plaintiffs' claims of burden and relevancy are ill founded. Plaintiffs seek to restrict Irwin's requests to require plaintiffs to search only for: (a) documents relating to rentals of videos at hotels and motels; (b) documents located only at each plaintiffs' "home offices"; and (c) documents prepared between February 1, 1980 to February 1, 1984. Not only are these restrictions unwarranted, but they

"It is well settled that First Amendment rights are not immunized from regulation when they are used as an integral part of conduct which violates a valid statute." Similarly, in *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240 (9th Cir. 1982), cert. denied, 459 U.S. 1227 (1983), the Ninth Circuit recognized these principles and held that, even where litigation is brought in good faith, if it is part of an overall scheme in violation of the antitrust laws, as are plaintiffs' restrictions on the rental market for videos in this case, they are not protected by Noerr-Pennington immunity:

. . . when there is a conspiracy prohibited by the antitrust laws, and the otherwise legal litigation is nothing but an act in furtherance of that conspiracy, general antitrust principles apply, notwithstanding the existence of the Noerr immunity . . . Noerr immunity is based on the First Amendment right to petition and to seek to influence governmental action . . . When, however, the petitioning activity is but a part of a larger overall scheme to restrain trade, there is no overall immunity.

690 F.2d at 1263.

In *Caplan v. American Baby, Inc.*, 582 F. Supp. 869 (C.D.N.Y. 1984), another case relied upon by plaintiffs, the court required that discovery be had prior to resolution of an alleged "Noerr-Pennington" defense in motion to dismiss. *Id.* at 871. In addition, the court expressly recognized that misuse of intellectual property rights is alone enough to overcome the Noerr-Pennington defense. *Handguards, Inc. v. Ethicon, Inc.*, 601 F.2d 968, 994 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980) (another case cited by plaintiffs).

would in essence eliminate production of virtually any documents.

A. Restriction To Documents Related Expressly To Hotels And Motels Is Unwarranted

Plaintiffs have attempted to limit four of Irwin's narrowed requests to only documents relating to the use of videos by hotel and motel guests on the grounds of relevancy.⁸ Plaintiffs' proposed restriction is inappropriate for two basic reasons.⁹

Plaintiffs' proposed restriction is inappropriate for two basic reasons. First, plaintiffs themselves do not recognize, prepare, or file separately documents relating to hotels and resorts market. Plaintiffs' counsel has stated that plaintiffs do not distinguish between hotels and motels and other licensees when licensing their copyrighted works. The limitation suggested by plaintiffs, therefore, would se-

⁸ The four requests at issue are: (1) documents relating to communications and restrictions on sale or rental of videodiscs or videotapes (Irwin's Memorandum at 23-25, 130-31); (2) documents to or from the Motion Picture Association of America ("MPAA") relating to the sale, rental, or use of videodiscs and/or videotapes (Irwin's Memorandum at 25-25, 130); (3) all protest letters and complaints, regardless of form that protest the rental or use of videodiscs and/or videotapes (Irwin's Memorandum at 26-27, 130-32); and (4) all press releases, warnings, protests, advertisements, and similar documents distributed by the MPAA or any of plaintiffs attempting to restrict the sale, rental, or use of videodiscs and/or videotapes (Irwin's Memorandum at 29, 133).

⁹ Plaintiffs also attempt to reinject issues in these requests that already have been resolved. Plaintiffs allege that irrelevant documents regarding piracy, off the air record, profit participation of writers, use of tapes in commercial broadcasts, pay cable networks, syndication, schools, prisons, commercial airlines, and a host of other issues and uses would be drawn in the production. Plaintiffs' Opposition Memo at 17-18. Irwin, however, narrowed the requests to eliminate these categories of documents in September 1985, in open court. See Reporter's Transcript at 15.

verely restrict discovery, eliminating a large amount of highly relevant and perhaps dispositive information.

Plaintiffs' attempt to deny their counsel's admission that plaintiffs make no distinction between hotels and motels and other sections of the rental market. *Plaintiffs' Opposition Memo* at 18. That denial amounts to a distinction without a difference. On February 12, 1986, plaintiffs' counsel expressly conceded that plaintiffs probably use only one form license agreement and that plaintiffs themselves do not distinguish the hotel and motel rental market from any of the other markets in which plaintiffs impose restrictions on the rental of videodiscs and videotapes. These restrictions, therefore, are based on general policies that are relevant to the subject matter of Irwin's affirmative defenses and antitrust counterclaims.

Inasmuch as plaintiffs do not distinguish between hotels and motels and other elements of the rental market, such a limitation would be entirely artificial. Accordingly, in searching for documents even in the restricted category of hotels and motels, plaintiffs would have to search documents relating to all types of businesses, not limited to hotels and motels. The burden, therefore, would be identical whether the request is limited or not. In fact, this additional step of culling out documents that do not expressly relate to hotels and motels may itself impose a burden on plaintiffs. In all likelihood the broader class of documents would be faster, simpler, and less costly for plaintiffs to identify and produce.

Second, plaintiffs' argument is premised on a misreading of Irwin's counterclaims and affirmative defenses. As explained to plaintiffs several times orally and in the pleadings of record, Irwin alleges in its antitrust counterclaims that "(1) plaintiffs restrict their licensed distributors of videotapes and videodiscs from selling videos to businesses that intend to rent the videos; (2) plaintiffs brought this action and brought or threatened to bring similar actions

against other hotels and resorts renting videos to thwart the development of the video alternative; (3) plaintiffs misused their copyrights by inserting threatening notices on videos that state viewing of the videos is restricted to "home use" and that non-home use will subject the user to criminal and civil penalties (to impress on the viewer the seriousness of the threat, an FBI symbol is displayed); and (4) plaintiffs, through their trade associations, used other threatening actions such as placing advertisements in hotel trade journals warning the hotels against "stealing" plaintiffs' copyrights by renting or using videos." *Irwin's Memorandum* at 16-17.

Irwin's counterclaims are substantially broader than plaintiffs' recantation of them. It is these counterclaims that determine the relevancy to the subject matter of this suit. Plaintiffs employ policies of general application with respect to restrictions on the rental of videodiscs and videotapes. These policies are applied to all types of licensed enterprises including, but not limited to, hotels and motels. Restricting the search to only those documents that specifically refer to hotels and motels will likely exclude a large volume of evidence that describes and explains plaintiffs' policies of general application. The limitation suggested by plaintiffs may well prevent Irwin from achieving any meaningful discovery with respect to these requests.

B. Plaintiffs' Proposed Time Limitations Are Unjustified

Plaintiffs' attempt to restrict the time period for documents responsive to the requests from February 1980 to February 1984. Plaintiffs allege that since activities engaged in before February 1, 1980, would be barred by the applicable statute of limitations, they should not be required to produce any documents generated before that date. Plaintiffs also seek to restrict production of documents between February 1984 and the present. That time period is well within any applicable limitations period.

Plaintiffs have proffered no other justification for unilaterally imposing this time restriction.

The only case relied on by plaintiffs is inapposite. In *Klein v. Lionel Corporation*, 130 F. Supp. 725 (D. Del. 1955), plaintiff propounded interrogatories asking defendant to identify the dollar volume of sales of a particular product to certain buyers for each year for a ten year period. While the dollar volume of sales for years outside of the statute of limitations might be irrelevant to the antitrust *damage claims* raised in that case, the existence of *liability* for copyright misuse, and a conspiracy, or attempt to monopolize remains relevant. In contrast to damages, material relevant to liability remains discoverable past the applicable period of limitations. *Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 82 S. Ct. 1404, 8 L.Ed.2d 77 (1962).

Courts have recognized that discovery with respect to antitrust liability should extend beyond the period of the statute of limitations. For example, in *United States v. Maryland & Virginia Milk Producers Association*, 20 F.R.D. 441 (D.D.C. 1957), the court established a ten-year cut-off period on discovery relating to allegations of restraint of trade and attempts to monopolize. On the issue of acquisition of other purchasers, however, the court found that an even longer period of time was appropriate. In *In re Shopping Carts Antitrust Litigation*, 95 F.R.D. 299, 309 (S.D.N.Y. 1982), the court employed a 14-year period for discovery. Incidentally, the court in that case found many of the same types of document requests propounded by Irwin to be entirely appropriate. Similarly, in *Quonset Real Estate Corp. v. Paramount Film Distributing Corp.*, 50 F.R.D. 240, 241 (S.D.N.Y. 1950), the court allowed discovery to extend back ten years before the earliest possible action in violation of the antitrust laws.

Plaintiffs imposed this time limit for the first time in their February 12, 1986 letter. The limitations are un-

timely and therefore waived. Moreover, the statute of limitations was raised for the first time in plaintiffs' opposition memorandum on March 15, 1986. When plaintiffs first raised the time limit issue, they based it solely on burden not that the documents were irrelevant because they are outside the statute of limitations. Plaintiffs' continuous injection of new arguments and objections serves only to complicate the issues. The simple fact is that there is no realistic fear that Irwin will obtain "all documents from the beginning of time . . ." *Plaintiffs' Opposition Memo* at 31. Video rentals are a relatively new phenomenon of the past ten years or so. The appropriate time limit is the start of the video rental business.

C. Plaintiffs Are Required to Produce All Documents In Their Possession, Custody, Or Control

In addition, plaintiffs object that their search should be limited to their "home office" files. This objection was raised for the first time on February 11, 1986, more than a year after plaintiffs were required to respond to the document requests. Plaintiffs attempt to bolster their claims of burden with the affidavits filed by Bernard Sorcken and Ben Tenn. These affidavits are wholly insufficient to meet plaintiffs' burden of proof in establishing that the document requests would be unduly burdensome.

The Federal Rules require *undue* burden. Burden is a relative concept. The more that is at stake, the greater the burden a party is expected to sustain. *Keco Indus., Inc. v. Stearns Electric Corp.*, 285 F. Supp. 912, 914 (E.D. Wisc. 1968) (party seeking damages of half a million dollars is not in strong position to complain of burdensome requests). Plaintiffs are in a far weaker position. Their claim could easily have exceeded \$4 million.¹⁰ In contrast to the substantial liability plaintiffs seek to impose upon Irwin,

¹⁰ Plaintiffs brought this case seeking up to \$50,000 damages for infringement of 74 copyrights plus attorneys' fees and costs.

plaintiffs' have been unwilling to sustain *any* burden in producing documents responsive to the counterclaims.

Plaintiffs must establish the magnitude of the burden involved and that such burden outweighs Irwin's need for the information. *Xerox Corporation v. International Business Machines Corporation*, 399 F.Supp. 451, 456 (S.D.N.Y. 1975). Mr. Tenn alleges only that it would be "extremely time consuming and expensive to search the files of their branch offices." These simple allegations are inadequate. "If the interrogatories are relevant, the fact that they involve work, research, and expense is not sufficient to render them objectionable." *United States v. NYSCO Laboratories, Inc.*, 26 F.R.D. 159, 161 (E.D.N.Y. 1960). Even where it would require "hundreds of employees . . . many years of man hours to unearth the answers," discovery has been required. *Alexander v. Rizzo*, 50 F.R.D. 374 (E.D. Pa. 1970). The need here is compelling inasmuch as plaintiffs are the only source for most of the information sought by Irwin. Mr. Sorcken states only that plaintiff Disney's home office is the only location of such documents. If it turns out that there are no documents in other than their home offices, plaintiffs need only so state.

IV.

PLAINTIFFS HAVE PROVIDED NO SUPPORT FOR RESISTING DISCOVERY ON THE BASIS OF THE ALLEGED CONFIDENTIALITY OF THE RATES CONTAINED IN THEIR LICENSE AGREEMENTS

Plaintiffs' objections to producing their license agreements are unavailing. Plaintiffs refuse production because the licenses contain royalty rates which plaintiffs claim are not relevant and confidential. As to relevancy, plaintiffs did not object to the relevancy of the license rates during negotiations. In fact, plaintiffs "offered" in their letter of February 11, 1986, to allow Irwin to inspect unredacted copies of all such documents implicitly conceding that this

information is relevant. In their Opposition, however, plaintiffs attempt to resurrect their relevancy objection to the financial information. Stripped of its rhetoric, it is no more than an attempt to prevent Irwin from securing copies of documents that plaintiffs have already conceded are relevant.

The relevancy of plaintiffs' license agreements cannot be seriously challenged. These agreements undoubtedly contain restrictions on the rental and use of videodiscs and videotapes. The financial provisions are relevant terms of those agreements. Those provisions may be used to provide incentives or disincentives for various types of conduct by licensees. Plaintiffs attempt to divert the Court's attention from the relevancy of this information by once again oversimplifying and misstating Irwin's affirmative defenses and antitrust counterclaims. Those claims are far broader than plaintiffs will accept.

In addition to their untimely attempt to renew their relevance objection, plaintiffs object to the production of copies of their financial information on the basis of confidentiality.¹¹ Opposition at 32-34. There is simply no privilege against discovery of trade secrets and similar confidential information. *Federal Open Market Committee of the Federal Reserve System v. Merrill*, 443 U.S. 340, 362 (1979).

Plaintiffs' alleged fears of disclosure are even less persuasive. Plaintiffs in their opposition feign fear of disclosure of their royalty rates to competitors. This is not even an issue. Irwin does not ask for unfettered production of the information for dissemination to the public but only for production on reasonable terms. All confidential information will be maintained in confidence and will not be

¹¹ Plaintiffs have apparently abandoned all of their other claim of confidentiality.

disclosed to competitors. All persons to whom it will be divulged will be bound to maintain that confidentiality.¹²

Plaintiffs' objection is particularly inappropriate in view of the existing confidentiality agreement that is already in place. That agreement, entered on January 15, 1985, provides plaintiffs far more protection than they purport to seek in the proposed protective order. The existing confidentiality agreement limits the documents to attorneys only. There is no doubt that a less restrictive agreement will eventually be needed, but the interim agreement eliminates any confidentiality concerns of plaintiffs. Plaintiffs are simply attempting to further delay production of the documents and to impede Irwin's efforts to obtain discovery.

V.

PLAINTIFFS' HAVE NOT SHOWN ANY SUBSTANTIAL JUSTIFICATION FOR THEIR REFUSAL TO COOPERATE IN DISCOVERY, COMPELLING THE IMPOSITION OF SANCTIONS

Plaintiffs once again seek to deflect attention from their glaring failures to produce documents by making an unjustified and unsupported demand that the Court impose

¹² Plaintiffs in their opposition also allege that Irwin has recanted their prior "agreement" to review unredacted copies of the agreements. Irwin offered to review unredacted copies of the license agreements only as an interim measure prior to the motion for summary judgment when it became obvious that the parties would not be able to agree to an appropriate protective order prior to hearing on the motion. In spite of this accommodation, plaintiffs refused to allow Irwin to review the documents. This whole issue was mooted by the Court's entry of summary judgment in this case. That fact was explained to plaintiffs' counsel when Irwin began pursuing discovery on the antitrust counterclaims and affirmative defenses immediately following the entry of summary judgment on Irwin's motion. Plaintiffs' counsel agreed that the interim arrangement would no longer be appropriate; yet, plaintiffs now attempt to resurrect this moot issue.

sanctions on Irwin. Plaintiffs are obsessed with Irwin's pending motion for sanctions and attorneys' fees—perhaps because they sense that they have substantial merit.

Plaintiffs' attempt to attack Irwin's compliance with the Local Rules is disingenuous at best and further highlights plaintiffs' bad faith. In spite of plaintiffs' rhetoric, they cannot deny their failures to conclude the Local Rule 7.15.1 conference, to provide the information required to prepare the proposed stipulation as required by Local Rule 7.15.2, to provide information necessary to revise the stipulation so that it might be filed with this Court, to meet any of their own deadlines established during the course of these negotiations, and most important, to produce any documents at this time, even those to which they do not object.

If this course of conduct is what plaintiffs mean by claiming that they have "cooperated fully," Irwin is at least glad that plaintiffs are not refusing to cooperate. After more than a year of delay, it would be difficult indeed had plaintiffs not "cooperated fully."

CONCLUSION

For the foregoing reasons, Irwin respectfully requests that the Court grant their motion to compel production of documents and to require plaintiffs and plaintiffs' counsel to pay the costs, including attorneys' fees, that Irwin has incurred in preparing this motion.

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNS

By /s/ Laura J. Barns
for Jeffrey W. King
for Attorneys for Defendants/
Counterclaimants

Dated: March 18, 1986

SUPPLEMENTAL DECLARATION OF PATRICK J. COYNE IN SUPPORT OF IRWIN'S MOTION TO COMPEL PRODUCTION OF DOCUMENTS

I, Patrick J. Coyne, declare:

1. I am a member of the Bar of the District of Columbia, and I am an associate with the law firm of Collier, Shannon, Rill & Scott. Since approximately September, 1984, I have assisted Jeffrey W. King in the matter of *Columbia Pictures Industries, Inc., et al. v. Professional Rest Estate Investors, Inc., et al.*, (Case No. 83-2594 WPG). I have knowledge of the facts set forth below, and if called as a witness, I would testify to these facts based upon my knowledge.

2. Negotiations leading up to the present motion to compel began, not on January 6, 1986 as plaintiffs contend, but rather, immediately after the Court's ruling on the motions for summary judgment in December, 1985. During the week of December 30, 1985, I repeatedly telephoned Maren Christensen, counsel for plaintiffs, to initiate discussions of Irwin's outstanding discovery requests but received no response.

3. On January 3, 1986, pursuant to Local Rule 7.15.1, I sent a letter to Ms. Christensen requesting a conference within ten days to resolve the outstanding discovery disputes.

4. Both parties developed proposals for narrowing the disputed discovery requests relating to the counterclaims. These were presented during a telephone conference on January 23, 1986 during which the Local Rule 7.15.1 conference noticed on January 3, 1986 was commenced. That conference call involved Maren Christensen, Bill Billick, and Diana Simon, on behalf of plaintiffs, and Jeffrey W. King and myself on behalf of Irwin. Plaintiffs attempted to narrow Irwin's Document Request Nos. 1 and 20-39 to only three: (1) communications between plaintiffs and their

licensees relating to restrictions on rentals to hotels and motels, (2) restrictions imposed by plaintiffs on RCA affecting sales to Irwin, and (3) plaintiffs' "home use" warning labels and use of the FBI symbol. Plaintiffs' counsel did not disclose at that time, however, that plaintiffs were unwilling to produce any documents. Rather, plaintiffs gave Irwin the distinct impression that, were the parties able to agree to an acceptable narrowing of the requests, discovery would proceed. Mr. King and I felt that plaintiffs' proposal was far too restrictive and Mr. King suggested an alternative narrowing of the document requests that were still disputed to 7 basic categories of information. During that telephone conference, Mr King again reiterated Irwin's request that plaintiffs immediately begin producing those documents to which plaintiffs did not object.

5. Maren Christensen stated during the January 23 telephone conference that she would contact counsel for Irwin during the week of January 27, 1986 to continue the Local Rule 7.15.1 conference.

6. On January 28, 1986, Mr. King and I received a letter from Ms. Christensen dated January 27, 1986, purporting to reconfirm Irwin's proposals for narrowing the disputed document requests. Ms. Christensen specifically stated in her January 27 letter that she would not even contact their clients to discuss the requests until we confirmed her interpretation of the categories of documents. Plaintiffs' recitation, however, contained numerous inaccuracies. Accordingly, on January 30, 1986, I wrote to Maren Christensen attempting to correct these inaccuracies. This letter was not intended as a final comprehensive statement of all elements of the current dispute. For example, none of the requests the parties had previously agreed to limit was discussed in either Ms. Christensen's or my letter. In violation of plaintiffs self-imposed time limit to continue the Local Rule 7.15.1 conference, plaintiffs failed to continue or conclude the conference by January 31, 1986.

7. In a further attempt to resolve the dispute and to conclude the Local Rule 7.15.1 conference, I telephoned plaintiffs' counsel on January 31, and again on February 3. Receiving no response, I wrote to Ms. Christensen on February 4, 1986. I made additional attempts to contact Ms. Christensen on February 6 and 7, 1986. In spite of these numerous attempts to contact plaintiffs' counsel, no substantive response was received. Rather, plaintiffs responded by letter dated February 6, 1986 that they would not continue or conclude the Local Rule 7.15.1 conference by February 7, 1986—one week past their self-imposed deadline.

8. I finally able to discuss the matter with Maren Christensen and Bill Billick, counsel for plaintiffs, by telephone on February 7, 1986. Plaintiffs' counsel, however, were not willing to substantively discuss the discovery disputes, nor were they willing to provide any information needed to prepare the proposed discovery stipulation pursuant to Local Rule 7.15.2. In spite of the limited progress that had been made up to that time, plaintiffs refused to waive any of their objections to the document requests. Rather, they would promise only to provide Irwin's counsel a written response to Irwin's proposed narrowing of the requests by February 10, 1986.

9. No response was received from plaintiffs on February 10, however, On the evening of February 11, 1986, after the close of business, at 6:00 p.m. EST, plaintiffs telecopied to Irwin's counsel their counter-proposal.

10. Plaintiffs' counter-proposal differed in a number of significant respects from Irwin's proposals. Plaintiffs introduced a number of additional restrictions into Irwin's already substantially narrowed requests. In addition, plaintiffs raised for the first time on February 11, 1986, three entirely new objections based on the "Noerr-Pennington" doctrine and the dates and locations of documents that would be subject to Irwin's document requests.

11. Upon receiving plaintiffs' counter-proposal, I once again repeatedly attempted to contact plaintiffs' counsel to discuss the counter-proposals. During a telephone conversation with Maren Christensen on February 12, 1986, Ms. Christensen announced for the first time that plaintiffs were not willing to go ahead with production of any documents even were the parties able to agree to a mutually acceptable narrowing of the disputed document requests.

12. During my telephone conversation with Maren Christensen on February 12, I discussed with Ms. Christensen the reasons why we felt that the additional limitations imposed by plaintiffs in their counter-proposal were not acceptable. Ms. Christensen, however, refused to attempt to resolve any of the outstanding disputes at that time. I telephoned back the evening of the 12th, and again on the 13th, in an attempt to continue the discussion. Receiving no response from plaintiffs, Mr. King and I prepared a proposed stipulation pursuant to Local Rule 7.15.2 setting forth for the first time a comprehensive statement of the remaining discovery disputes. That proposed stipulation was served by hand on plaintiffs on February 14, 1986, 42 days after the Rule 7.15.1 conference had been requested.

13. The cover letter accompanying the proposed stipulation served on plaintiffs specifically requested that plaintiffs contact me directly with any suggested changes or revisions to the stipulation. Rather than comply with that request, Ms. Christensen wrote directly to Laura J. Barns, Irwin's local counsel, in a letter dated February 20, 1986, stating that she felt the proposed stipulation was inaccurate in a number of regards.

14. Upon receipt of Ms. Christensen's letter, I responded by letter dated February 24, 1986, reiterating Irwin's prior request to direct correspondence regarding the stipulation to me and offering to discuss any proposed revisions plaintiffs may have in order that the stipulation

could be completed by February 16, 1986, as required by Local Rules 7.15.2 and 7.15.4. Plaintiffs, however, did not return the signed stipulation by February 26, 1986, nor did plaintiffs counsel contact me to discuss the proposed stipulation.

15. I telephoned Ms. Christensen on February 27, in yet another attempt to work out a stipulation that would be acceptable to both parties. While Ms. Christensen indicated an initial willingness to discuss the stipulation, when the conversation turned to substantive changes in the stipulation, she broke off the conversation but stated that she would call back within 15 minutes to continue the discussion. She did not. I waited in my office more than an hour for her return phone call which I never received, although Ms. Christensen apparently did attempt to telephone 45 minutes after our conversation ended. I repeatedly attempted to contact Ms. Christensen on the afternoon of February 27, at 2:00 p.m., 3:30 p.m., and 4:45 p.m., but received no response.

16. On February 28, 1986, I again repeatedly attempted to contact Ms. Christensen but received no response. I received a telex from Ms. Christensen during the late afternoon of February 28, stating without explanation that she no longer wished to discuss the proposed stipulation by telephone and suggesting a proposed schedule that would have further delayed resolution of the pending discovery disputes. I responded immediately by telecopy explaining that plaintiffs' proposed schedule for redrafting the stipulation, well outside the time periods provided by the Local Rules, was not acceptable because it would not provide Irwin adequate time to prepare a motion to compel for hearing with the other pending motions on March 24, 1986. I again urged Ms. Christensen to contact me to discuss any changes plaintiffs felt were necessary to the proposed stipulation.

17. Several of the requests have been narrowed by agreement between counsel for the parties:

- a. Request No. 1 for organizational charts has been narrowed to require production of all corporate organizational information for that portion of the corporate structure of each plaintiff involved in the production or distribution of motion pictures, videodiscs, and videotapes;
- b. Plaintiffs have conceded that Request No. 3 seeking communications between or among plaintiffs and Irwin concerning Irwin is proper.
- c. Plaintiffs have conceded that Request Nos. 30 and 31 are proper inasmuch as they seek representative samples of plaintiffs' restrictive "home use" notices and/or use of the FBI symbol in conjunction with those notices.
- d. The parties have agreed that Document Request Nos. 1 and 20-39 are narrowed to exclude documents relating to piracy, off-the-air recordings, profit participation of writers, directors, etc.

18. Having received no response from plaintiffs to the proposed stipulation, on March 3, 1986, Irwin filed the present motion to compel production of documents.

19. In response to plaintiffs' request for additional time to respond, *inter alia*, to Irwin's Motion to Compel, Irwin agreed to stipulate that the parties would have at least two weeks, until March 14, 1986, to file and serve by hand on the opposing party, their respective oppositions to Irwin's Motion to Compel Production of Documents, to Irwin's Motions for Costs and Attorneys' Fees, and to Plaintiffs' Motion to Stay Proceedings.

20. Irwin timely served by hand upon plaintiffs on March 14, 1986, Irwin's opposition to plaintiffs' Motion to stay Proceedings.

21. None of plaintiffs' opposition papers, however, was timely served by hand upon Irwin, as required by the stipulation. Irwin's lead counsel received plaintiffs' oppositions to Irwin's Motions for Costs and for Attorneys' Fees at approximately 5:20 p.m. on the evening of March 14, 1986. I telephoned plaintiffs' counsel repeatedly on the evening of March 14, 1986, inquiring about plaintiffs' opposition papers that had not been served. I spoke with Maren Christensen by telephone on the evening of March 14, 1986, at approximately 6:30 p.m., regarding plaintiffs' untimely service of their opposition to Irwin's Motion to Compel. Although plaintiffs telecopied portions of plaintiffs' opposition to me, which were received at approximately 8:00 p.m. on the night of March 14, 1986, Irwin's lead counsel did not receive a complete copy of plaintiffs' opposition to Irwin's Motion to Compel on March 14, 1986.

22. Plaintiffs did not deliver a complete copy of their opposition to Irwin until 10:00 p.m. on the night of Saturday, March 15, 1986.

23. Irwin agreed to accept a copy of plaintiffs' opposition but did not waive any defect in service and I so informed plaintiffs by telecopy and during my telephone conversation with Maren Christensen on the night of Friday, March 14, 1986, at approximately 6:30 p.m.

I DECLARE, under penalty of perjury, that the foregoing is true and correct and that this declaration is executed this 18th day of March, 1986, in Washington, D.C.

/s/ Patrick J. Coyne
PATRICK J.
COYNE

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

HONORABLE WILLIAM P. GRAY, JUDGE PRESIDING

CIVIL NO. 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., ETC., ET AL.
PLAINTIFFS,

VS.

PROFESSIONAL REAL ESTATE INVESTORS, INC., ETC.,
ET AL.,
DEFENDANTS.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
ANGELES, CALIFORNIA
WEDNESDAY, SEPTEMBER 18, 1985

[3] LOS ANGELES, CALIFORNIA, WEDNESDAY,
SEPTEMBER 18, 1985

10:00 A.M. SESSION

THE CLERK: ITEM NUMBER TWO, CIVIL 83-2594, COLUMBIA PICTURES INDUSTRIES, INCORPORATED, ET AL., VERSUS PROFESSIONAL REAL ESTATE INVESTORS, INCORPORATED, ET AL.

MR. KROFT: GOOD MORNING, YOUR HONOR. STEPHEN KROFT AND MAREN CHRISTENSEN FOR THE PLAINTIFFS AND OPPOSING PARTIES. WE ALSO HAVE HERE PRIOR COUNSEL, MS. WOLPERT AND MR. ROSE, IN CASE THEY ARE NEEDED FOR THE HEARING

THE COURT: ALL RIGHT. GOOD MORNING TO ALL OF YOU.

MR. KING: GOOD MORNING, YOUR HONOR. I'M JEFFREY, HERE WITH LAURA BARNS. WE REPRESENT THE DEFENDANTS AND THE MOVING PARTIES IN THIS ACTION.

THE COURT: ALL RIGHT. YOU ARE MS. BARNS?

MS. BARNS: YES.

THE COURT: I SUPPOSE CONFESSION IS GOOD FOR THE SOUL. BECAUSE OF SOME OTHER DEADLINE PROBLEMS THAT I HAVE HAD, I HAVEN'T STUDIED ALL THESE MONUMENTAL PAPERS WITH THE THOROUGHNESS THAT I WOULD NORMALLY LIKE TO DO, BUT I DO HAVE SOME IMPRESSIONS.

AS I UNDERSTAND IT, THIS LITIGATION STEMS FROM [4] THE FACT THAT PLAINTIFF, COLUMBIA PICTURES, AND OTHERS, CONTEND THAT THE DEFENDANTS, WHO RUN THE LA MANCHA PRIVATE CLUB AND VILLAS, HAVE BEEN SHOWING THEIR MOTION PICTURE CASSETTES, OR ALLOWING THEM TO BE SHOWN, UNDER SUCH CIRCUMSTANCES AS TO CONSTITUTE A PUBLIC PERFORMANCE AND, THEREFORE, ARE SUING FOR WHAT, INJUNCTION AND DAMAGES?

MR. KROFT: YES, YOUR HONOR. STATUTORY DAMAGES ONLY.

THE COURT: AND THE DEFENDANTS SAY, APPARENTLY, "WE HAVE NOT BEEN INFRINGING YOUR COPYRIGHT."

YOU DON'T CHALLENGE THE VALIDITY OF THE COPYRIGHT?

MR. KING: YOUR HONOR, WE HAVE NOT BEEN SHOWN SUFFICIENT PAPERS TO IDENTIFY ALL THE COPYRIGHTS. THERE ARE 75 COPYRIGHTS IDENTIFIED, I BELIEVE; THERE ARE EIGHT OF THEM THAT HAVE NOT BEEN SHOWN WHETHER THEY ARE REGISTERED OR WHO OWNS THEM.

THE COURT: ALL RIGHT. BUT THE MAIN ISSUE IS THEN WHETHER OR NOT THE DEFENDANTS HAVE BEEN UNJUSTIFIED IN THEIR ACTIONS OF SHOWING THOSE FILMS?

MR. KING: THE MAIN ASPECT OF PLAINTIFFS' CLAIM IS WHETHER MY CLIENTS INFRINGED THEIR COPYRIGHTS BY ALLOWING THOSE MOTION PICTURES TO BE SHOWN BY THE GUESTS IN THE VILLAS, YES.

THE COURT: YOUR CLIENTS, IN EFFECT, HAVE WHAT, [5] RENTED THE PICTURES TO YOUR GUESTS AND THEY TAKE THEM TO THEIR OWN ROOMS AND SHOW THEM, OR SOMETHING TO THAT EFFECT?

MR. KING: THAT'S EXACTLY RIGHT, YOUR HONOR.

THE COURT: AND THE QUESTION IS, DOES THAT CONSTITUTE A PUBLIC PERFORMANCE THAT WOULD BE IN VIOLATION OF THE COPYRIGHT LAWS.

MR. KING: THAT IS HOW I UNDERSTAND THE CONTENTIONS, YOUR HONOR.

THE COURT: AND A SUBSIDIARY ISSUE TO THAT IS WHETHER OR NOT THE PLAINTIFFS HAVE COPYRIGHTS ON ALL THOSE FILMS.

YOU DON'T SERIOUSLY QUESTION THAT THEY DO, DO YOU?

MR. KING: MY ONLY PROBLEM IS, YOUR HONOR, I HAVE NOT BEEN SHOWN OWNERSHIP PAPERS FOR ALL OF THEM.

THE COURT: OKAY.

MR. KING: SOME OF THE COPYRIGHT PAPERS WE WERE GIVEN SHOW OWNERSHIP IN OTHER THAN THE PLAINTIFFS' NAME AND THERE ARE TRANSFER PAPERS FOR THEM.

THE COURT: THEN YOU HAVE A COUNTERCLAIM, AN ANTITRUST COUNTERCLAIM; IS THAT RIGHT?

MR. KING: AMONGST THE OTHER COUNTERCLAIMS, YES, YOUR HONOR, WE HAVE AN ANTITRUST COUNTERCLAIM.

THE COURT: AS I UNDERSTAND THE LAW, IF THEY [6] HAVE A VALID COPYRIGHT, AND THEY ARE CHARGING INFRINGEMENT, IT IS NOT APPROPRIATE THAT—THE ALLEGED INFRINGER IS NOT ENTITLED TO BRING AN ANTITRUST CONTENTION AGAINST THEM.

MR. KING: I'M CONFUSED, YOUR HONOR. I THINK THAT WE ALLEGE THAT THEY VIOLATE THE COPYRIGHTS THROUGH A SERIES OF ACTIVITIES; AMONGST THAT IS BRINGING THESE TYPES OF LAWSUITS AGAINST US AND OTHERS. IT'S ABUSING THEIR COPYRIGHT NOTICE BY SEEKING TO OBTAIN MORE PROTECTION THAN THE LAW ALLOWS. IT'S PUTTING IN RESTRICTIVE LICENSING AGREEMENTS WITH THE PEOPLE WHO PRODUCED THE VIDEODISCS AND TAPES.

THE COURT: WAIT A MINUTE, NOW. PUTTING IN RESTRICTIVE LICENSING. WELL, WHAT IS THAT TO YOU?

MR. KING: THEY ARE ATTEMPTING TO RESTRICT THE DEVELOPMENT OF A MARKET FOR THE RENTAL OF VIDEODISCS AT RESORTS AND HOTELS AND HAS INHIBITED MY CLIENT FROM EXPANDING HIS MARKET.

THE COURT: WELL, IF YOU ARE VIOLATING THE COPYRIGHT LAWS BY HAVING A PUBLIC PERFORMANCE, THEY ARE ENTITLED TO CHALLENGE YOU ON IT. IF

YOU ARE NOT, WHY THEN THEY DON'T PREVAIL IN THEIR ACTION.

NOW, WHAT IS THIS ALLEGED ANTITRUST CONDUCT?

MR. KING: YOUR HONOR, AS WE UNDERSTAND IT, IT'S MANIFOLD.

[7] ONE IS, THAT THEY PUT RESTRICTIONS, AND WE HAVE BEEN SO INFORMED BY OFFICIALS OF ONE OF THEIR LICENSEES, THAT TRY TO PREVENT THE LICENSEE WHO PRODUCES THE DISC, OR THE TAPE, FROM SELLING THOSE DISCS OR TAPES TO PEOPLE IN THE POSITION OF MR. IRWIN, WHO WOULD RENT THESE DISCS OR TAPES OUT.

TWO IS, THAT THEY PUT IN A COPYRIGHT NOTICE WHICH WARNS ANYONE WHO LOOKS AT IT THAT SAYS, "THIS COPYRIGHT—" OR "VIEWING OF THIS PICTURE IS RESTRICTED TO HOME USE," NOT TO PRIVATE USE BUT TO HOME VIEWING AND WITH A BIG FBI SYMBOL IN IT THAT YOU CAN BE SUBJECT TO CIVIL AND CRIMINAL LIABILITY.

THAT IS FAR BEYOND WHAT THE COPYRIGHT GRANTS THEM, SO THEY ARE TRYING TO EXPAND THE MONOPOLY AGAIN BEYOND WHAT IS GRANTED THEM.

THIRDLY, THEY BROUGHT THIS SUIT, AND SUITS SIMILAR TO IT, IN AN ATTEMPT TO TRY TO BEAT BACK A DEVELOPMENT OF THIS MARKET AND I BELIEVE IN ALL BUT THIS SUIT OF THIS NATURE, WHICH INVOLVES RESORTS AND HOTELS, HAVE BROUGHT SETTLEMENTS, SO THE ISSUE HAS NEVER BEEN LITIGATED.

THE COURT: NOW, THERE ARE WHAT—YOU HAVE ABOUT 60 CONTENTIONS OF THEIR REFUSAL TO SUBMIT DOCUMENTS?

MR. KING: WE HAVE 40 REQUESTS, YOUR HONOR.

THE COURT: 40 REQUESTS. AND SOME OF THEM THEY [8] ALLEGE ATTORNEY-CLIENT PRIVILEGE. OVER WHAT REQUEST DO YOU ALLEGE AN ATTORNEY-CLIENT PRIVILEGE?

MR. KROFT: YOUR HONOR, I BELIEVE IT PROBABLY IS EVERY ONE OF THEM, ALTHOUGH I HAVE BEEN IN THIS CASE ABOUT THREE-AND-A-HALF WEEKS SO I CAN'T SPEAK WITH ABSOLUTE CERTAINTY ON THAT, BUT I MIGHT SHORTCIRCUIT THIS A LITTLE BIT, YOUR HONOR.

WE HAVE BEEN IN THE CASE ONLY THREE-AND-A-HALF WEEKS AND AS SOON AS I WAS ABLE TO GET A HANDLE ON WHAT WAS GOING ON I FOUND THAT THERE WERE CERTAIN DOCUMENTS PROMISED WHICH HADN'T BEEN PRODUCED FOR WHATEVER REASON AND WE HAVE ARRANGED TO GET THOSE DOCUMENTS PRODUCED AND THAT INVOLVES ABOUT 14 OF THE REQUESTS.

THE COURT: WELL, I HAVE A STRONG IMPRESSION THAT SOME OF THE DOCUMENTS THAT HAVE NOT BEEN PRESENTED SHOULD BE MADE AVAILABLE TO THE DEFENDANT AND I HAVE AN EQUALLY STRONG IMPRESSION THAT THE DEFENDANTS ARE ASKING FOR MORE THAN THEY REALLY NEED OR SHOULD BE ENTITLED TO AND I HAVE AN EVEN STRONGER IMPRESSION THAT YOU PEOPLE SHOULD CARRY OUT OUR LOCAL RULE THAT REQUIRES YOU TO SIT DOWN AND TRY TO WORK THOSE THINGS OUT BEFORE COMING TO THE COURT.

I'M NOT SURE THAT MY IMPRESSION IS HEIGHTENED BY THE FACT THAT I HAVEN'T STUDIED ALL OF THESE, OR AM NOT PREPARED TO RULE ON THEM, BUT I THINK THE INTERESTS OF [9] JUSTICE AND YOUR RESPECTIVE INTERESTS WOULD BE BETTER SERVED BY YOUR TRYING TO WORK THESE THINGS OUT FIRST.

MR. KING: YOUR HONOR, WE'VE ATTEMPTED TO DO THAT.

THE COURT: WELL, I READ THAT. YOU CALLED A MEETING BUT APPARENTLY THE PLAINTIFFS DIDN'T REALIZE THAT IT WAS FOR THE PURPOSE OF RULE 7, THAT IT WAS INSTEAD FOR THE PURPOSE OF A PRETRIAL MEETING.

MR. KING: OF COURSE, THE PRETRIAL RULES DO REQUIRE YOU TO DISCUSS DISCOVERY DISPUTES AND THEY WEREN'T PREPARED TO EVEN DO IT UNDER RULE 9.

THE COURT: I UNDERSTAND, BUT I WANT YOU TO DO IT NOW. ANY OBJECTION TO THAT?

MR. KING: MY ONLY PROBLEM IS, YOUR HONOR, THAT WE'RE NOW SEVEN, ALMOST EIGHT MONTHS, SINCE THESE DOCUMENTS WERE TO BE PRODUCED. I WOULD LIKE SOME DEADLINE.

THE COURT: I'M GOING TO GIVE YOU A DEADLINE.

MR. KING: AND I WOULD ALSO SEEK, THE FACT THAT WE HAVE HAD TO GO THROUGH THIS DEADLINE, SOME KIND OF COSTS AWARDED.

THE COURT: I'LL WITHHOLD JUDGMENT ON THAT. I'LL ULTIMATELY FIND OUT WHETHER THERE'S BEEN ANY IMPROPER FOOT-DRAGGING, BUT HOW LONG WILL IT TAKE YOU TO BE READY, SINCE YOU HAVE BEEN IN THIS CASE THREE WEEKS, HOW LONG [10] WILL IT TAKE YOU TO BE READY TO GO TO THE MAT WITH THESE DEFENDANTS AND PRESENT THE DOCUMENTS THAT YOU ACKNOWLEDGE SHOULD BE PRESENTED AND SHOW THEM WHY YOU SHOULDN'T HAVE TO PRESENT OTHERS?

MR. KROFT: YOUR HONOR, WE WILL PRESENT THE DOCUMENTS THAT WE HAVE SAID THAT WE WOULD PRESENT THEM TODAY, SUBJECT TO WORKING OUT THE LANGUAGE OF A STIPULATED PROTECTIVE ORDER THAT WE SENT THEM LAST WEEK.

WE HAVE THE DOCUMENTS ASSEMBLED. WE HAVE GIVEN COUNSEL A LIST OF THOSE DOCUMENTS; WE'VE TALKING ABOUT 17 OF THE 40 REQUESTS; TWO HAVE BEEN WITHDRAWN BY STIPULATION BECAUSE OF OUR ELECTION TO PROCEED ONLY FOR STATUTORY DAMAGES.

THAT LEAVES 21 OF THE 40 IN DISPUTE. I WOULD BE PREPARED TO TALK TO MR. KING AND JUST WORK

IT OUT AS SOON AS WE CAN DO IT. A MONTH SOUNDS VERY LONG.

THE COURT: ALL RIGHT. WITHIN THE NEXT 10 DAYS.

MR. KROFT: I THINK WE CAN DO IT WITHIN THE NEXT 10 DAYS.

MR. KING: THE ONLY THING I REQUEST IS THAT IF WE ARE UNABLE TO RESOLVE THE DISPUTE, THAT WE CAN HOLD OUR RULE 7 MEETING BY TELEPHONE RATHER THAN FORCE ME TO COME BACK OUT TO CALIFORNIA.

MR. KROFT: YOUR HONOR, THAT OFFER HAS ALWAYS BEEN AVAILABLE TO MR. KING, AS I UNDERSTAND IT, AND IT [11] WILL REMAIN OPEN.

THE COURT: I'M GOING TO BE IN HAWAII FOR THE NEXT SIX TO EIGHT WEEKS. IF YOU WANT TO HAVE A CONFERENCE WITH ME TO WORK IT OUT, WHY, YOU WILL ASSUME RESPONSIBILITY FOR GETTING A CONFERENCE CALL TO ME IN HAWAII.

MR. KING: I WILL, YOUR HONOR.

THE COURT: MY STAFF WILL ACCOMMODATE YOU.

MR. KROFT: YOUR HONOR, I MAY HAVE A SLIGHT MISUNDERSTANDING. I THOUGHT WHAT THE COURT WAS SUGGESTING IS THAT THE FIRST STEP WAS FOR THE PARTIES TO MEET WITHOUT THE COURT.

THE COURT: IT IS, OF COURSE. BUT IF YOU CAN'T MAKE—I EXPECT YOU TO BE ABLE TO WORK OUT MUTUAL ACCOMMODATIONS SO THAT THEY WILL GET THE DOCUMENTS THAT YOU BOTH RECOGNIZE THAT THEY NEED AND THEY WILL BE SATISFIED THAT YOU ARE GIVING THEM ALL THAT THEY ARE ENTITLED TO, BUT IF YOU HAVE ANY SCRAPS ABOUT IT, MAKE A LIST OF THEM AND WE'LL HAVE IT OUT BY TELEPHONE.

MR. KROFT: YOUR HONOR, THERE IS ONE OTHER THING I'D LIKE TO RAISE AS A SUGGESTION, IF IT'S POSSIBLE.

I SAID THAT THERE WERE 21 THAT ARE STILL IN DISPUTE. OF THOSE 21, 17 OF THEM PERTAIN TO—I'M NOT SURE IF IT'S 17 OR 19—THE BULK PERTAIN TO THE ANTITRUST COUNTERCLAIMS.

[12] I THINK I'D LIKE TO ADDRESS THAT FOR JUST A MOMENT, IF I COULD, YOUR HONOR.

MR. IRWIN, THE PRESIDENT OF THE DEFENDANTS, WHO HAS BEEN DEPOSED, STATED THAT HIS MOVIE RENTING BUSINESS GROSSES HIM \$12,000 A YEAR AT HIS HOTEL. THAT'S ALL THE BUSINESS INVOLVES.

HE'S ALSO TESTIFIED THAT HE'S CONTINUED TO DO IT ALL THE WAY THROUGH THIS LITIGATION.

THE COURT: HIS MOVIE RENTALS GROSS IS \$12,000.

MR. KROFT: THAT'S RIGHT.

THE COURT: IS THAT BIG OR LITTLE?

MR. KROFT: I THINK THAT'S INFINITESIMAL FROM HIS STANDPOINT.

FROM OUR STANDPOINT IT'S THE LEAK IN THE DIKE THAT COULD BE MONUMENTAL FOR US, BUT FOR HIM I THINK IT'S VERY SMALL.

ALSO, HE'S CONTINUED TO ENGAGE IN THIS ACTIVITY ALL THROUGH THIS LAWSUIT. WE RECOGNIZE THAT THIS IS AN ISSUE OF LAW THAT OUGHT TO BE DECIDED PERMANENTLY BY SUMMARY JUDGMENT. WE HAVEN'T SOUGHT A PRELIMINARY INJUNCTION.

THE POINT OF ALL THAT IS THIS: HE'S NOT BEING HARMED, IN THE ANTITRUST SENSE, AT THE MOMENT BECAUSE EVEN IF THERE IS A CONSPIRACY AROUND, AND I'VE SEEN NO EVIDENCE OF IT, IT HASN'T DIRECTLY HIT HIM.

[13] WHAT I'D LIKE TO SUGGEST IS THIS, YOUR HONOR: IN OUR VIEW THIS IS ABSOLUTELY A CASE FOR SUMMARY JUDGMENT ON THE COPYRIGHT ISSUES. AS THE COURT HAS HEARD THIS MORNING, THERE IS REALLY NO DISPUTE AS TO WHAT THE DEFENDANTS

ARE DOING. THE ONLY QUESTION IS THE LEGAL EFFECT OF THOSE ACTS.

I BELIEVE THAT A SUMMARY JUDGMENT IN PLAINTIFFS' FAVOR, IF THAT WERE THE WAY THE COURT WERE TO DECIDE THE ISSUE, WOULD ALSO DISCLOSE THE ANTITRUST COUNTERCLAIMS.

I KNOW THAT DEFENDANTS' COUNSEL DISPUTES THAT, BUT HE HAS SAID, IN AN AFFIDAVIT THAT HE PRESENTED IN SUPPORT OF HIS MOTION FOR SANCTIONS HERE, THAT HE DOES BELIEVE THAT IF THERE'S A SUMMARY JUDGMENT IN THIS CASE, AND I THINK THAT MEANS ONE WAY OR THE OTHER, THERE'S EVERY LIKELIHOOD THAT THIS ANTITRUST COUNTERCLAIM WILL BE SETTLED BECAUSE THIS CASE ISN'T ABOUT ANTITRUST. IT'S ABOUT WHETHER THESE DEFENDANTS CAN CONTINUE TO SHOW THE PLAINTIFFS' MOVIES WITHOUT PAYING A LICENSE FEE.

IF THE COURT RULES THAT HE CAN, AS THE COURT HAS RECENTLY OBSERVED, HE'S GOING TO DROP THESE COUNTERCLAIMS, IS MY GUESS. I KNOW I CAN'T MAKE THAT REPRESENTATION, BUT WHAT I WOULD LIKE TO SUGGEST, YOUR HONOR, IS THAT IF THIS SUMMARY JUDGMENT IS HEARD SHORTLY AFTER THE COURT RETURNS FROM ITS VISIT TO THE OTHER DISTRICT COURT, IF WE DELAY DISCOVERY ON THE ANTITRUST COUNTERCLAIMS FOR JUST THAT [14] SHORT PERIOD, WE COULD PROBABLY END UP SAVING ALL OF US AN AWFUL LOT OF EFFORT THAT MAY NOT EVER BE NECESSARY.

MR. KING: YOUR HONOR, MAY I JUST ADDRESS THE POINT HE MADE?

THE COURT: NOT YET. GIVE ME SOME INDICATION AS TO WHAT DOCUMENTS WOULD BE REQUIRED IF I WERE TO ALLOW DISCOVERY ON THE ANTITRUST CASE?

MR. KROFT: EXCUSE ME, YOUR HONOR. LET ME PULL OUT THE REQUEST.

THE COURT: WELL, YOU CAN GIVE A LITTLE SUMMARY, CAN'T YOU?

MR. KROFT: I CAN GIVE A LITTLE SUMMARY. I WANTED TO BE MORE ACCURATE.

NOW, THIS ASSUMES THE WORST, WE CAN'T WORK IT OUT. NUMBER 33, AS I RECALL IT, ASKS FOR ALL COMMUNICATIONS BETWEEN PLAINTIFFS AND EVERY PERSON WHO HAS EVER BEEN AUTHORIZED TO PUBLICLY PERFORM ONE OF THEIR WORKS. THAT MEANS MOTION PICTURE THEATRES, TELEVISION STATIONS, AIRLINES, PRISONS—YOU NAME IT.

THE COURT: THAT'S ENOUGH.

MR. KROFT: THAT'S ENOUGH.

THERE ARE A GROUP OF ABOUT FOUR OTHERS THAT REQUEST US TO DIVULGE DOCUMENTS THAT SHOW ALL COMMUNICATIONS WE'VE EVER HAD WITH ANYBODY ABOUT THE SUBJECT OF RENTING OR SELLING VIDEO CASSETTES OR VIDEO [15] TAPES AND THAT INVOLVES NEGOTIATIONS OF AGREEMENTS WITH ACTORS, WRITERS AND DIRECTORS WHO, AS PART OF THEIR COMPENSATION, ARE ENTITLED TO RECEIVE A PERCENTAGE OF THE PROFITS RECEIVED BY THE STUDIOS FROM THE SALE OF VIDEOCASSETTES AND DISCS, THE LABOR NEGOTIATIONS WITH THE GUILDS ON THE ISSUE, WHICH ENDED UP BEING THE STICKING POINT IN THOSE NEGOTIATIONS AND DARN NEAR CAUSED A STRIKE PRINTING ORDERS, SHIPPING ORDERS, INVOICES, ET CETERA.

THE COURT: THAT'S ENOUGH.

NOW I'LL HEAR FROM MR. KING.

MR. KING: YOUR HONOR, I'LL ADDRESS THESE ISSUES IN THE REVERSE OF WHAT WE HAVE HEARD.

ONE. JUST REQUEST NUMBER 33, WHICH HE SAID WOULD INVOLVE ALL THEATRICAL PERFORMANCES, WE HAVE ALREADY AGREED THAT IS NOT WHAT WE WERE AFTER AND RESTRICTED IT ACCORDINGLY.

ALL THESE OTHER ASPECTS, THE ACTORS' AGREEMENT THEY HAVE NEVER TOLD US ABOUT THEM. WE WOULD BE HAPPY TO ELIMINATE THAT. I THOUGHT THAT WAS THE PURPOSE OF US TRYING TO DISCUSS THIS OUT.

AS TO THE ANTITRUST CLAIMS, THEY ARGUE WE ARE NOT HURT BECAUSE WE'VE ONLY DONE \$12,000 A YEAR RENTAL BUSINESS. THAT IS PRECISELY WHY WE ARE HERE, BECAUSE THAT'S ALL WE'VE DONE.

PRIOR TO THIS SUIT BEING BROUGHT MR. IRWIN HAD [16] HAD DISCUSSIONS WITH A NUMBER OF PEOPLE ABOUT EXPANDING THE VIDEODISC PROGRAM HE HAD IN HIS RESORT TO BE USED IN RESORTS THROUGHOUT THE UNITED STATES AND ELSEWHERE, BUT IT INVOLVED A NICE—A PROGRAM HE WAS INTENDING TO DESIGN.

HE HAS STOPPED THAT ENTIRELY. HE HAS STOPPED ANY RENTAL TO ANY CLUB MEMBERS WHO ARE ALSO NOT RESIDENTS OF THE CLUBS, THAT MEANING LOCAL MEMBERS WHO DON'T STAY AT THE CLUB. HE HAS RESTRICTED HIS ACTIVITIES ENORMOUSLY.

SO THERE IS AN ONGOING AND A REAL ANTITRUST PROBLEM HERE.

ESSENTIALLY, WHAT THE PLAINTIFFS WANT TO SAY NOW, SEVEN-AND-A-HALF, ALMOST EIGHT MONTHS, AFTER THEY WERE SUPPOSED TO ORIGINALLY GIVE THESE DOCUMENTS IS, "LET'S DELAY IT LONGER BECAUSE WE THINK WE ARE GOING TO WIN," AND I DON'T BELIEVE THAT'S PROPER LAW AND THE CASES THAT THE PLAINTIFF CITE THEMSELVES THE COURT ALLOWED DISCOVERY, AT LEAST THE INITIAL DISCOVERY IN ANTITRUST.

THE COURT: YOU HAVE EXPRESSED A WILLINGNESS TO CARVE DOWN YOUR ANTITRUST DEMANDS, PRESUMABLY, RATHER SUBSTANTIALLY.

I'M NOT NOW GOING TO PUT THE ANTITRUST DOCUMENTARY REQUEST OUT OF BOUNDS, BUT YOU SEE

IF YOU CAN WORK OUT AN ACCOMMODATION. I WILL TELL YOU, HOWEVER, THAT IF YOU DON'T WORK OUT AN ACCOMMODATION AND YOU COME TO ME ABOUT IT, I'M GOING TO TAKE THE ATTITUDE THAT WE WILL HEAR [17] A SUMMARY JUDGMENT MOTION WITH RESPECT TO THE PLAINTIFFS' COMPLAINT AS SOON AS I CAN GET-BACK HOME AND IF THE ANTITRUST DISCOVERY IS TOO BURDENSOME I WILL DEFER IT UNTIL WE HEAR THE SUMMARY JUDGMENT MOTION.

MR. KING: IF THEY CAN SHOW THAT BURDEN, YOUR HONOR.

THE COURT: THAT'S RIGHT.

MR. KING: WE DO NOT INTEND TO OVERBURDEN THEM. WHAT WE INTEND TO DO IS ASCERTAIN INFORMATION, SOME OF IT QUITE SIMPLE—SAMPLES OF THEIR COPYRIGHT NOTICES ON THEIR DISCS. THEY USE AN FBI SYMBOL TO WARN PEOPLE AWAY, WHAT'S THE AUTHORITY FOR THAT?

THE COURT: THEN TO THE EXTENT THAT YOU FIND THE DISCOVERY REQUEST WITH RESPECT TO ANTI-TRUST NOT TO BE UNDULY BURDENSOME, I COMMEND TO YOU THAT YOU GIVE IT TO THEM BECAUSE I'LL PROBABLY REQUIRE IT ANYWAY, NOT BEING WILLING TO DEFER CONSIDERATION OF ANTITRUST UNTIL WE HEAR OUR SUMMARY JUDGMENT MOTION.

ON THE OTHER HAND, I TELL YOU, MR. KING, THAT IF THE COURT CONCLUDES THAT IT IS BURDENSOME, I WILL DEFER IT.

MR. KING: I UNDERSTAND.

THE COURT: NOW, YOU HAVE GOT SOMETHING FOR EACH SIDE. AND NOW YOU FELLOWS GET TOGETHER WITHIN THE NEXT 10 DAYS.

[18] MR. KING: YOUR HONOR, THERE ARE ALSO ASPECTS CONCERNING THE ATTORNEY-CLIENT WORK PRODUCT PRIVILEGE. THEY MAKE THOSE NAKED CLAIMS AND HAVE PROVIDED US NO INFORMATION TO

SUPPORT THEM. WE DON'T WANT TO BREACH THEIR ATTORNEY-CLIENT RIGHTS OR THEIR WORK PRODUCT, BUT WHAT WE WOULD LIKE TO KNOW IS WHETHER THEY ARE VALID CLAIMS.

THE COURT: I WOULD TOO. I'M SUSPICIOUS ABOUT IT. SIT DOWN TOGETHER AND—THAT MAY BE ONE OF THE THINGS WE HAVE TO RESOLVE BY TELEPHONE, BUT I'M SUSPICIOUS ABOUT IT.

THIS COURT, ON THE ONE HAND, WILL MAKE A SELF-SERVING STATEMENT, I'M VERY VIGILANT IN TRYING TO PROTECT A VALID ATTORNEY-CLIENT PRIVILEGE, BUT I ALSO HAVE NO SYMPATHY FOR AN ATTEMPT TO COVER A VALID DISCOVERY REQUEST WITH THE INVALID ASSERTION OF ATTORNEY-CLIENT PRIVILEGE, SO WORK THAT OUT TOO, IF YOU CAN.

MR. KING: OKAY, YOUR HONOR.

THE COURT: I THINK UP FELLOWS CAN DO A LOT, NOW THAT YOU ARE IN THIS CASE FOR THREE WEEKS AND HAVE A MORE REALISTIC ATTITUDE ABOUT IT, YOU CAN WORK OUT THOSE THINGS AND I'LL DO THOSE THAT YOU CAN'T.

MR. KING: THE ONLY FINAL THING I DO HAVE, YOUR HONOR, IS THAT THEY DO HAVE NEW COUNSEL AND IT IS OUR SINCERE HOPE THEY WILL COOPERATE WITH US IN RESOLVING [19] THESE MATTERS. WE HAVE GONE THROUGH AN AWFUL LOT OF FRUSTRATION AND EXPENSE. WE WOULD LIKE THAT TO CONTINUE TO BE A CONSIDERED MATTER BEFORE YOU.

THE COURT: I'LL TAKE THAT INTO ACCOUNT. APPARENTLY THESE ARE FILMS PUT OUT BY EACH OF THE RESPECTIVE PLAINTIFFS? THEY ARE NOT JOINT OWNERSHIP OF A PARTICULAR FILM?

MR. KROFT: YOU ARE CORRECT, YOUR HONOR.

THE COURT: ALL RIGHT.

MR. KING: THEY ARE VIDEODISCS, YOUR HONOR. WE WILL EXPLAIN THAT IN OTHER PAPERS. WE STILL HAVE A MOTION FOR SANCTIONS PENDING TOO.

THE COURT: I'LL KEEP THAT PENDING. REMIND ME AT THE APPROPRIATE TIME.

MR. KING: CAN WE PUT THAT THEN ON THE CALENDAR WITH THE SUMMARY JUDGMENT MOTION?

THE COURT: YES, I THINK SO.

MR. KING: OKAY, YOUR HONOR. WE APPRECIATE IT. THANK YOU VERY MUCH.

THE COURT: GOOD LUCK. WITHIN THE NEXT 10 DAYS. (PROCEEDINGS CONCLUDED.)

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
CIVIL MINUTES—GENERAL

Case No. CV 83-2594-WPG
March 24, 1986

Title COLUMBIA PICTURES INDUSTRIES INC, ET AL VS
PROFESSIONAL REAL ESTATE INVESTORS, INC, ET
AL

DOCKET ENTRY

PRESENT:

HON. WILLIAM P. GRAY, JUDGE

Angela Dawson, Deputy Clerk

Les Richter, Court Reporter

ATTORNEYS PRESENT FOR PLAINTIFFS:

Stephen Kroft

Maren Christensen

ATTORNEYS PRESENT FOR DEFENDANTS:

Laura Barns

Jeffrey King

PROCEEDINGS:

HEARING: 1) MOTION OF PLAINTIFFS FOR ORDER
STAYING PROCEEDINGS ON COUNTER-
CLAIMS PENDING RESOLUTION OF
APPEAL

2) MOTION OF DEFENDANTS TO RETAX
COSTS

3) MOTION OF DEFENDANTS TO COMPEL
COUNTERDEFENDANTS TO PRODUCE DOC-
UMENTS, FOR EXPENSES AND
ATTORNEY'S FEES

Case called and counsel present. Counsel argue re stay of proceedings. Court orders all proceedings stayed pending resolution of appeal and orders that no documents be destroyed. Motions re costs and re production are denied without prejudice.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Case Number CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.
Plaintiff(s)

vs

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.
Defendant(s)

FILED
CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NOTICE OF HEARING ON FILING AND SPREADING
JUDGMENT OF COURT OF APPEALS (CIVIL)

PLEASE TAKE NOTICE that the judgment of the United States Court of Appeals, Ninth Circuit, having been received in the above-entitled case, this matter has been set for hearing on March 20, 1989 at 10:00 a.m. o'clock before the Honorable William P. Gray, United States District Judge, in Judge Gray's Courtroom, United States Courthouse, 312 N. Spring Street, Los Angeles, California. It will not be necessary for all counsel to be present at that time.

JA-492

LEONARD A. BROSINAN, CLERK

Dated: March 3, 1989 By: /s/ D.J. Beard
Deputy Clerk

JA-493

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
Civil Minutes - Appeals

CV 83-2594-WPG

ENTERED
CLERK, U.S. DISTRICT COURT
MAR 22 1989
CENTRAL DISTRICT OF CALIFORNIA

Date: March 20, 1989

Title: Columbia Pictures Industries, Inc., et al. -v- Profes-
sional Real Estate Investors, Inc., etc., et al.

PRESENT: THE HON. WILLIAM P. GRAY, JUDGE

D.J. Beard
Deputy Clerk

Lucillie Litsheim
Court Reporter

ATTORNEYS FOR PLAINTIFF

Not Present

ATTORNEYS FOR DEFENDANT

Not Present

PROCEEDINGS: FILING AND SPREADING MANDATE OF
THE NINTH CIRCUIT COURT OF APPEAL

IN COURT COUNSEL NOTIFIED

THE COURT ORDERS that the mandate of
the Ninth Circuit Court of Appeals:

JA-494

Affirming

is hereby filed and spread upon the minutes of this U.S.
District Court. (ENTERED MAR 22 1989)

THIS CONSTITUTES NOTICE OF ENTRY AS REQUIRED
BY FRCP, RULE 77(d).

JA-495

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES REOPENING/CLOSING

No. CV 83-2594-WPG

April 6, 1989

Title COLUMBIA PICTURES IND., INC., ET AL. V.
PROFESSIONAL REAL ESTATE INVESTORS, INC.,
ET AL.

Present WILLIAM P. GRAY, Judge
D.J. Beard, Deputy Clerk
N/A, Court Reporter

Not present
Attorneys for Plaintiff, Stephen A. Kroft

Not present
Attorneys for Defendant, Jeffrey W. King and Laura J.
Barns

In Chambers
Counsel Notified

Other Per Minute Order of 3/24/86 proceedings stayed
pending outcome of appeal. Appeal filed and spread
on 3/20/89, thus reopening case.

Entered APR 7 1989 JS5

Stephen A. Kroft
ROSENFELD MEYER &
SUSMAN

9601 Wilshire Blvd., Ste 444
Beverly Hills, CA 90210

Jeffrey W. King
COLLIER, SHANNON, RILL
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CV 74 (3/87)

Laura J. Barnes
Richard W. Bane
KELLY, HERLIHY & BANE
540 North Golden Circle
Drive, Ste 300
Santa Ana, CA 90014

THIS CONSTITUTES NO-
TICE OF ENTRY, AS RE-
QUIRED BY FRCP, RULE
77(d).

Initials of Deputy Clerk DT

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

AND RELATED COUNTERCLAIM

FILED

MAR 27 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

Date: April 17, 1989

Time: 9:30 a.m.

Courtroom No.: 23

REQUEST FOR A RULE 16 CONFERENCE

Pursuant to Rule 16 of the Federal Rules of Civil Procedure and Rule 9 of the Rules of the United States District Court for the Central District of California, Counterclaimants respectfully request that a scheduling conference be held on April 17, 1989. This scheduling conference is necessary to allow the parties to move forward in an expeditious manner on the counterclaims in light of the previous stay of discovery by the Court on those claims.

JA-498

A proposed Scheduling Order is attached.

Respectfully submitted,

COLLIER, SHANNON, RILL & SCOTT

By: Patrick J. Coyne
JEFFREY W. KING
PATRICK J. COYNE

KELLY, HERLIHY & BANE

By: Laura J. Barns
LAURA J. BARNES

Attorneys for Counterclaimants
PROFESSIONAL REAL ESTATE INVESTORS,
INC., and KENNETH IRWIN

Dated: March 27, 1989

[Certificate of Service omitted in this printing]

JA-499

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

COUNTERCLAIM PLAINTIFFS' REPLY MEMORANDUM
IN SUPPORT OF SCHEDULING ORDER NO. 1

DATE: April 17, 1989

TIME: 9:30 a.m.

COURTROOM: 29

FILED

APR 10 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

BY DEPUTY

Counterclaim Plaintiffs, Professional Real Estate Investors, Inc., and Kenneth F. Irwin ("Irwin"), respectfully submit this reply memorandum in response to Counterclaim Defendants' Response to Proposed Scheduling Order No. 1 and in support of the proposed scheduling order.

I. DISCOVERY—GENERALLY

Counterclaim defendants object to Paragraphs C and D of Section 1 of the Proposed Scheduling Order on the grounds that it varies from the provisions of the Local Rules. Counterclaim defendants have not identified any specific points of deviation from the Local Rules or provided any reasons why the provisions of the proposed scheduling order are inappropriate.

The proposed scheduling order is entirely proper and appropriate, nonetheless, Irwin has no objection to following the provisions of the Local Rules with respect to the resolution of discovery disputes.

II. DISCOVERY OF EXPERT WITNESSES

Counterclaim defendants object to paragraphs C and D of Section II of the proposed scheduling order on the same grounds that they objected to paragraphs C and D of Section I of the proposed scheduling order.

The Local Rules provide certain scheduling parameters that govern proceedings in the absence of other specific orders of the Court. The Local Rules do not preempt the Court's power to devise and implement any scheduling order which the Court feels would be better adapted to an individual case. Rather, they are default provision, designed for a "typical" case.

This is not a "typical" case; it involves multiple counterclaim defendants and important legal issues. The proposed scheduling order will better serve the needs of the Court and the parties in the present case than would the default provisions of the Local Rules. There are three principal reasons why the Court should adopt the proposed order.

First, this case will involve substantial third party discovery. Numerous third parties are in possession of factual

information that bear directly on the issues raised in the counterclaims.

Second, Irwin anticipates that this case will involve substantial expert testimony on critical issues with respect to the construction of the copyright law. In view of the need for substantial third party discovery, expert discovery will not likely produce complete and meaningful information until the fact discovery has been completed. Only then will the experts be able to present the factual basis for their opinions in a fashion that will produce meaningful expert discovery. The proposed scheduling order accommodates this concern by setting a period for fact discovery followed by a periods for expert discovery. This will allow development of the bases for the expert opinion testimony to be proffered at trial, while allowing each party ample notice of, and time to respond to, the bases for the expert testimony.

Finally, there has already been substantial delay in commencing discovery with respect to the counterclaims. In fact, counterclaim defendants have thus far provided Irwin no meaningful discovery on the counterclaims. There is a very real danger that certain information has or will be lost or destroyed unless discovery is not commenced promptly.

In the event counterclaim defendants find that they need additional time, or have "legitimate reasons" to defer expert discovery until the conclusion of discovery, the proposed order specifically provides that the Court may make any appropriate ruling with respect to such matters.

III. MOTIONS

Counterclaim defendants object to that portion of Paragraph A of Section III of the proposed scheduling order which would require that dispositive motions be filed only during a 60 period preceding the cutoff date specified. Irwin does not object to counterclaim defendants' proposed

modification of the scheduling order, to allow such motions to be filed at any time on or before the cutoff date.

Counterclaim defendants object further to Paragraph B of Section III which would require all remaining motions to be filed prior to the pretrial conference. Counterclaim defendants, however, provide absolutely no reasons or justification for their objections. As noted above, this case will involve numerous parties, substantial third party discovery, substantial expert testimony, and important issues of statutory construction. The scheduling proposed by Irwin will allow for reasoned consideration of the evidence and will allow the parties to proceed through trial with greater guidance as to the admissibility of certain evidence and other matters. The proposed scheduling order will help prevent surprise and allow for more orderly presentation of the evidence.

IV. PRETRIAL CONFERENCE

Counterclaim defendants also object to Paragraphs B through E of Section IV of the proposed scheduling order. Yet, Counterclaim defendants again provide no reasoning or justification for their objections.

Section IV proposed by Irwin is intended to provide all parties ample notice of the arguments that will be made at trial, as well as to facilitate orderly exchange of exhibits, objections to exhibits, stipulations of fact, and other pretrial matters. The procedures suggested by Irwin incorporate by reference the pretrial statements required by Local Rule 9. The principal difference between Irwin's proposed scheduling order and Local Rule 9 is in the time limits by which certain steps shall be taken. Whereas Local Rule 9 requires that Pretrial Statements shall be filed 21 days before the pretrial conference and that exhibits be exchanged prior to the conference, the proposed order would require that both be completed 30 days prior to the

pretrial conference and that objections to the exhibits also be filed before the pretrial conference.

In view of the factors discussed above, the additional time lead allowed under Irwin's proposed scheduling order should allow a more thorough and complete pretrial of the action. Irwin has also proposed that the parties take additional steps to pre-try the case. Specifically, each party shall submit objections and a statement of stipulated facts, rather than merely discussing and attempting to resolve these matters as set forth in Rule 9. Hence, the scheduling order proposed by Irwin would allow fuller development of these matters at the pretrial conference.

V. TRIAL

Counterclaim defendants also object to Paragraphs B through E of Section IV of the proposed scheduling order. Yet, Counterclaim defendants again provide no reasoning or justification for their objections.

The scheduling order proposed by Irwin would provide slightly longer lead times for submission of proposed jury instructions (ten days rather than seven) and special verdict forms (ten days rather than five). The proposed scheduling order would also resolve other matters not addressed by Local Rule 9. Specifically, the proposed scheduling order requires that proposed *voire dire* questions be submitted ten days before trial. In addition, the proposed scheduling order would require that objections to these materials be filed two days before the pretrial conference, rather than filing objections to proposed jury instructions on the first day of trial as set forth in the Local Rules. Irwin submits that these changes will allow for more complete development of the case at the pretrial conference.

CONCLUSION

For the foregoing reasons, Irwin respectfully requests that Irwin's Proposed Scheduling Order, amended as in-

licated above, be entered and that counterclaim defendants' objection to Irwin's proposed scheduling order be denied.

DATED: April 10, 1989

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

KELLY, HERLIHY & BANE

By: /s/ Laura J. Barns
Laura J. Barns
Attorneys for Counterclaimants
PROFESSIONAL REAL ESTATE
INVESTORS, INC., and KENNETH
IRWIN

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

CIVIL MINUTES—GENERAL

—
CV 83-2594-WPG
—

Columbia Pictures Industries, Inc., et al.

v.

Professional Real Estate Investors, Inc.,

PRESENT:

HON. WILLIAM P. GRAY, JUDGE

**D.J. BEARD
DEPUTY CLERK**

**RON PROVENCIO
COURT REPORTER**

PROCEEDINGS:

RULE 16 CONFERENCE

Court and Counsel discuss status of case. Counsel indicates counterclaims pending. Court signs scheduling order this date.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
HONORABLE WILLIAM J. REA, DISTRICT JUDGE
PRESIDING

NO: CV 83-2594-WPG

COLUMBIA PICTURES, etc., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, etc., et al.,
Defendants.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
MONDAY, APRIL 17, 1989

[3] LOS ANGELES, CALIFORNIA; MONDAY, APRIL 17,
1989

THE CLERK: Item number one, CV-83-2594, Columbia Pictures Industries, Incorporated, vs. Professional Real Estate Investors.

Counsel, your appearances, please.

MR. KROFT: Good morning, your Honor; Stephen Kroft and James Seal for the plaintiff and counter-defendant.

MR. SEAL: Good morning.

THE COURT: All right, gentlemen.

MR. TREAM: Jeffrey Tream, your Honor, for the defendant and counter-plaintiff.

THE COURT: Yes.

Has the mandate been spread on this case?

MR. KROFT: Yes.

MR. TREAM: We just got it earlier last week, about Wednesday.

THE CLERK: Yes, it has been filed.

MR. TREAM: It has been.

THE COURT: It has been, okay.

What else do we have to do in this case?

MR. TREAM: I think, your Honor, we need to set up a schedule, but I don't think we're very far apart anyway. [4] When we had filed our motion for Rule 16, the stay on discovery had not been lifted, the latest schedule lifted that stay of discovery.

THE COURT: I know, but the defendants prevailed in this case, isn't the case open?

MR. TREAM: No, we have counterclaims, your Honor, that continue to be pending. You stayed discovery on those counterclaims during the course of appeals.

THE COURT: What do you seek?

MR. TREAM: We're seeking damages for antitrust and unfair competition.

THE COURT: What's the antitrust violation?

THE COURT: The antitrust violation is that they've come to monopolize on the video distribution market in the hotel-resort market. They did it with a number of means, amongst them we believe to be conspiracies and contractual terms used to make sales to hotels that may use videos for rental.

Suits like this threaten to—rather, suits like this, misuse of their copyrights—

THE COURT: Well, didn't they have a good-faith belief that the—

MR. TREAM: We do not believe they did, your Honor. We believe we could prove that.

THE COURT: You gave the Court of Appeals lot of [5] trouble, didn't you?

MR. TREAM: I don't know, it was a 3-0 decision, your Honor. The Court of Appeals had a lot of trouble finding a sitting panel, it was a party of six judges, mostly because of changes in the panel. But the decision did not reflect trouble, the decision was—

THE COURT: Well, you're going to have to show that they had motives other than their good faith belief that their copyright covered the situation.

MR. TREAM: Your Honor, we're going to have to show they attempted to monopolize. Amongst the things that we can show, if we use the basis of this lawsuit as an attempt to monopolize, is that the lawsuit was brought knowing they didn't have the rights they were trying to assider (phonetic).

THE COURT: Well, if they had, if they believed that they had a—that their copyright covered this type of claim, why, then, they're home free, aren't they?

MR. TREAM: I don't necessarily think they are home free, there are other elements to our monopolization claim. We certainly think that reduces the claim we have, and then certainly the aspect of that it revolves around this lawsuit. There is other activity, as well.

THE COURT: Like—

MR. TREAM: Plus we do not believe that a good [6] faith case.

THE COURT: All right. Well, let's—if the trier of fact finds that they had a good faith belief that their copyright

covered what your people were doing, what other strings do you have to your bolt?

MR. TREAM: We have that they have attempted to contract with people who manufacture this to—the discs and the tapes, videos—to restrain them from selling those, providing copies of those, to resorts and hotels such as ours. So they've conspired in that way to try and restrict the development of this market.

THE COURT: Well, were they successful? What are your damages in that respect?

MR. TREAM: We have basically been procluded from developing a video disc distribution and video tape distribution system for hotels. I think, through the course of the trial, we will show that we attempted to do so and were rebuffed by the fear of this litigation and by the interference of the defendants.

We're not the only person they encroach, we happen to be the only person to litigate the case.

THE COURT: How many hotels do you have?

MR. TREAM: We have one resort, but we went to several chains and other hotels to see if we could institute a video system in those hotels, and we were rebuffed by the [7] fear of this lawsuit and by other fears of the studio's might.

THE COURT: What do you contend your damages are?

MR. TREAM: I—we contend our damages, your Honor—we've not yet calculated them, simply because we've gotten total six documents in discovery relating to these counterclaims outstanding, those discovery requests filed a year before this Court's decision, notwithstanding four years before the Court of Appeals' decision.

You stayed that discovery; we'd like to reopen that discovery and move forward.

THE COURT: Well, I guess you have a right to do so. But are you quite sure that the likelihood of recovery and the amount of recovery justifies this further litigation?

MR. TREAM: I believe it is, your Honor. I believe it is. We think the likelihood of recovery is high, we think the amount of damages will also be substantial. There are other video companies that have developed programs in Europe where they were not procluded and they have been very successful—

THE COURT: Well, if they had a valid—if they had an honest belief that their copyright covered the renting of a tape in a hotel for use in a hotel room, then they would have a right to try to persuade—to cause [8] others to understand that if they violated their copyright on 'the matter, that they contended you were doing, that litigation would follow, didn't they?

MR. TREAM: You certainly cut to the heart of it, your Honor; that's if they had that belief.

THE COURT: Yes.

MR. TREAM: And I do not believe they could have legitimately had that belief, based upon the records they developed and the very copyright law they sought protection under.

THE COURT: But your case basically hinges on your being able to show they didn't have that belief, doesn't it?

MR. TREAM: I think that is probably correct, your Honor.

THE COURT: All right. Well, now, with respect to this scheduling order, you agreed on part of it.

MR. KROFT: Yes, yes, your Honor. We basically agreed on the contours of the timing and so on. I understand now Mr. King does not object our making a dispositive

motion even prior to the closing of the discovery because we think that the suit does not have merit.

And this is not a pattern of baseless claims, this is a single lawsuit and in the Ninth Circuit authority they must show it is baseless, not just unsuccessful, and [9] secondly, that it was coupled with extraneous, extrajudicial anti-competitive conduct which we don't think they can show, either.

So we're proceeding at pace with a dispositive motion even as they proceed with discovery.

THE COURT: All right. Then your—then the defendant and counter-claimant is entitled to discovery to try to establish this lack of good faith, and you are—you say you're proceeding looking toward a motion for summary judgment?

MR. KROFT: Yes, because I think under the Ninth Circuit authority, the criteria is whether the suit was baseless, and I think that is something that the Court could rule on as a matter of law and discovery is not going to help them on that.

MR. TREAM: That's not quite true, your Honor. Certainly we have a right to discover whether they _____ this or not, and, in fact, the most recent decisions on the concept of the Doctrine of Dor Pennington (phonetic), which would protect any antitrust liabilities, someone exercising their First Amendment rights to petition in court.

They have found even where they've been successful, that there still could be an antitrust liability, a recent \$1 billion judgment was entered against [10] the railroad down in Texas involving the very claim because they brought the suit not caring whether they won or not, but caring whether they could slow down or tend to perpetrate the monopoly of the transportation cold in that case. (?)

So the answer is not simply a matter of whether you thought their claim had more merit than we did, but

whether they, in fact, what their intent was and what they knew of it during the process of bring this case, what they were aware of.

THE COURT: Well, as you know, I found that their copyright did not cover this situation because it was not a—I found that it was not a public display—public performance—what it is?

MR. TREAM: Yes, public performance, your Honor.

THE COURT: Public performance. But I had a tough time with it, and I can understand how the plaintiff might in good faith conclude that you were violating his copyright.

MR. TREAM: I understand that, your Honor. I think we're entitled to discovery to determine whether they believed that—

THE COURT: All right.

MR. TREAM: —and whether third parties had informed them of the lack of this ability—

[11] THE COURT: Well, all right.

MR. TREAM: —to pursue these claims or the lack of authority to pursue these claims.

? THE COURT: That depends upon who the third parties are. If it's his wife, then I don't think he has a good cause here. Why, that's not like an expert—we just had one of these before the Supreme Court.

MR. TREAM: I agree with you, your Honor. I do not propose to say that this was—

THE COURT: Well, what must I do this morning?

MR. TREAM: I think that there's two things. We need to agree on a scheduling order, we have the basic schedules, I think the only real disputes over them are we have set off experts to be discovered near the end of the case.

I don't think plaintiffs really disagree with that, I think they may have misread it. We said they had 60 days after—must identify experts by the close of discovery and we have 60 days to oppose them.

That gives them more time, not less time, I think that may just—they seem to complain that we may be cutting off their expert discovery rights. We're extending those discovery rights. Where the rest of discovery may close, expert discovery will continue.

There's nothing in the local rules that [12] either prevent or address this issue. We were just simply recognizing that—

THE COURT: All right.

MR. TREAM: —in the antitrust case and the experts will be identified in the end.

THE COURT: What must I do this morning?

MR. TREAM: I'd like to enter into a scheduling order to move this case along.

THE COURT: All right.

MR. TREAM: There is a motion to compel the outstanding discovery that's been fully briefed.

THE COURT: Well, I have a response to your scheduling order number one, your scheduling order number one must be here.

MR. TREAM: I do have a copy of it, your Honor, if you would—

THE COURT: No, I've got it here, I'm sure.

MR. KROFT: Your Honor, with respect to experts, our complaint with the order was that they could designate their experts at any time and then you would have 60 days to conduct discovery. If they designated someone to—

morrow, our time to depose the expert would expire within 60 days.

We just wanted to make it clear that any expert could be deposed at any time prior to the discovery cutoff with respect to experts.

[13] THE COURT: All right.

MR. KROFT: I think that's the only—

MR. TREAM: That's the only—I think we're dealing with something cutting it off on March 2nd or 3rd, 1990, not—they're not going to cut it off, they're going to extend it.

THE COURT: All right. Here's the scheduling order number one, all such discovery shall be completed by—all discovery shall be initiated by December 31st?

MR. TREAM: Yes, your Honor.

THE COURT: Why so late?

MR. TREAM: Well, your Honor, we have had no discovery in this case yet. We need an opportunity to begin discovery.

THE COURT: Yes, I know, but—

MR. TREAM: There will be—I think there will be considerable third-party discovery.

THE COURT: But initiated, why do you have to wait until December 31st to initiate it?

MR. TREAM: I don't need to—you must have initiated all of it by then. In other words, it will—actually, discovery closes on the 15th, your Honor—

THE COURT: All right.

MR. TREAM: —of February 1990. It just means that past December 31, 1989, you can't initiate any more [14] even if you want to.

THE COURT: All right. Do the cross-defendants agree on that?

MR. KROFT: December 31 is fine, your Honor.

THE COURT: All right. That will be the order. All such discovery shall be completed by February 15, 1990.

Is that satisfactory?

MR. TREAM: I believe that is satisfactory, your Honor.

MR. KROFT: That is, your Honor. The order should be clarified, though, that any motion heard be heard by February 15th.

Is that what is contemplated?

MR. TREAM: I think later on that is contemplated, as well.

THE COURT: All right. We'll see. All discovery disputes—no, no, I do my own discovery disputes.

MR. TREAM: We have agreed to—to strike that, your Honor.

THE COURT: We'll strike C.

MR. TREAM: Yes.

We've agreed to strike D, it's not necessarily—it's not inconsistent with your Local 7.15(2), it's slightly different.

THE COURT: All right. We'll strike D, [15] gentlemen?

MR. TREAM: Yes.

MR. KROFT: Yes, your Honor.

THE COURT: Discovery of expert witnesses—is A satisfactory?

MR. TREAM: Yes.

MR. KROFT: Yes, your Honor.

THE COURT: and B?

MR. KROFT: B is satisfactory, your Honor.

THE COURT: And C?

MR. KROFT: C was where we had the problem, I think it was a drafting problem rather than a substantive problem.

MR. TREAM: It shall be completed within 60 days after December 31st, 1989.

Is that satisfactory?

MR. KROFT: Yes, that's correct. Just put in a date.

THE COURT: Well, then put a date. 60 days is about February 28th, isn't it? Is that all right?

MR. KROFT: Yes, your Honor.

THE COURT: Shall be completed by February 28th.

MR. TREAM: D was taken out as instructed.

THE COURT: And D will be struck.

MR. KROFT: Correct.

[16] THE COURT: MOTions—dispositive motions shall be filed by April 15th.

Is that all right?

MR. KROFT: Yes, your Honor.

THE COURT: Shall be filed—on dispositive motions shall be filed by April 15th.

MR. TREAM: Given the potential complexities, we had extended slightly the briefing schedule, your Honor, as we've had done in the motions, summary judgment motions on the copyright counts. And I believe the plaintiffs have objected to that. I don't know if their objection—

MR. KROFT: Well, your Honor, with respect to dispositive motions, I think the opposition scheduled hear-

ing is fine. With respect to the motions only and with respect to other motions, we'll just have local rules govern.

THE COURT: All right.

MR. TREAM: I think that's fine.

THE COURT: Then A, I just changed the first sentence of A to say:

"Shall be filed by April 15th, 1990. Opposition briefs shall be filed and served in 30 days of service of the motion being opposed."

And we said when motions have to be filed.

[17] Is that all right?

MR. KROFT: Yes, sir.

THE COURT: And, B, all remaining motions shall be filed prior to pretrial, I suppose that's on.

MR. KROFT: Well, your Honor, this would appear to limit motions in limine regarding evidence and things of that nature, and it seems that the dispositive motions are going to be heard after the pretrial conference. This may _____, in fact, motions in limine and so forth.

I—obviously, motions to amend the pleadings should be heard prior to the pretrial conference, but with respect to motions regarding the conduct in the trial are excluded or included into evidence, it seems to me those should be allowed to go forward just in accordance with the local rules.

THE COURT: Well, then we can strike—what about striking B?

MR. TREAM: We can strike it, your Honor. We're simply attempting to move the trial along expeditiously by having a—

THE COURT: Well, let's—

MR. TREAM: —logical sequence of motion filing.

THE COURT: All right. Well, the local rules will cover that.

MR. KROFT: Your Honor, back up in A of sub-part 3 [18] is the reply memoranda to 20 days after the service of the opposition memorandum.

THE COURT: And reply memorandums—yes.

Is that all right?

MR. KROFT: With us, your Honor, yes.

THE COURT: All right.

MR. TREAM: Does the Court have lead time it wants to have all memoranda in prior to the hearing?

THE COURT: Sure. The local rules provide for that, too, I think.

MR. KROFT: Yes, it's seven days.

THE COURT: That would be—

MR. TREAM: Yes, it's seven days.

THE COURT: Pretrial conference—all right. Is A-4-A all right?

MR. KROFT: Yes, your Honor.

THE COURT: 4-B?

MR. KROFT: Well, when we get into B and C, D and E, we're really aggregating and modifying the local rules.

THE COURT: Yes. Why don't we just adhere the local rules and strike B, C and D.

MR. TREAM: Your Honor, the reason we did that was because of the potential complexity, we thought to give ourselves additional time to deal with it. That was the only reason we added slightly more time.

[19] THE COURT: How much more did you add?

MR. TREAM: Um, I think we—I'll have to do this—I think we added 10 days.

THE COURT: All right. Well, that's all right, isn't it?

MR. TREAM: But it may be we added 15, I just don't recall.

THE COURT: All right. If all you're doing is adding a few days, I don't mind that.

Well, so shall we leave B, C and D?

MR. TREAM: We also added in an objection to trial exhibits, which is not covered by your local Rule 9—

THE COURT: All right.

MR. TREAM: —filed prior to the retrial. That we did add, an addition that's neither covered nor overruled by the local rule.

THE COURT: All right. I'm about to leave Roman Numeral IV alone; is that satisfactory, gentlemen?

MR. KROFT: That's satisfactory.

THE COURT: All right. Five.

MR. TREAM: Your Honor, what we did here was the local rule requires most of the—the jury instructions be given seven days. Again, because this is an antitrust case, we extended to ten. The local rule doesn't require the voir dire of special jury verdict form, we simply added that in.

[20] THE COURT: Any problem?

MR. KROFT: Well, again, I think we prefer to go with the local rules. You know, a lot of time the special verdict form depends on what issues are left in and so on. And the local rules do cover this.

THE COURT: Well, let's leave it. Let's—he has—the defendant and cross-complainant has a substantial burden here, let's let him have the schedule.

MR. TREAM: Thank you, your Honor.

THE COURT: All right.

MR. TREAM: The last part is B, which simply—I don't believe the local rules deal with at all, saying that the objections from the other side—the objections to each side's voir dire and jury instructions and verdict forms should be filed two days before trial.

THE COURT: All right.

MR. KROFT: But I think we might say two court days since the trial might begin on Tuesdays.

THE COURT: Two court days. All right. I'll insert "court."

MR. TREAM: That is—we have no objection, obviously, on that.

THE COURT: All right.

All right, gentlemen, I will sign the order as we've modified it.

[21] MR. TREAM: Your Honor, in addition, there is a motion to compel we have, again, to see six documents to our discovery motions. We have briefed it, we have argued it. I don't know if there's anything more to be done but to—

THE COURT: You've briefed it and argued it?

MR. TREAM: We've briefed it and argued it last—in March of 1986—(year??)

THE COURT: Well, no wonder I haven't heard it.

MR. TREAM: I think that's probably right, your Honor.

MR. KROFT: Your Honor, I think all of this could be an excuse for faulty memory, a little over three years. We have briefed it, I don't believe we argued it because the

day we showed up for the hearing the court stayed all discovery and stayed any argument on it.

THE COURT: Oh.

MR. TREAM: I think that may be correct. I apologize if I misstated it.

THE COURT: Well, do you have any—what issues are there now with respect to discovery?

MR. TREAM: I think there's still a—remain, I think what I would like to do, unless Mr. Kroft objects, if simply try to work it out. If not, renew our motion, try to waive oral argument—

THE COURT: All right. Why don't you do that.

[22] MR. KROFT: Your Honor, I'm not sure I'm prepared to waive oral argument at this point since I don't know what issues would be left. But we're more than happy to try and work it out.

THE COURT: All right. See if you can work it out. If you can't, let me know, we'll do it informally.

MR. TREAM: Your Honor, there's one other thing is that during this dispute over discovery, plaintiffs had agreed they would produce some things, but they've never produced—it's very hard to understand whether in the discovery process whether we're being over-reaching unless we see at least the things they agreed to.

THE COURT: Remind them of it, and if they don't do it, seek Court's help and I'll give you help and maybe sanctions.

MR. TREAM: Okay, your Honor, because what I'm looking for as if we can at least get the documents we've agreed to and agree to disagree on the others, maybe once I review them I can make a—

THE COURT: Okay.

MR. TREAM: —I can't at all at this time.

THE COURT: Good counselor can work out matters like that.

MR. TREAM: I think we're good counselors, your Honor.

[23] MR. KROFT: We'll strive to.

THE COURT: All right. And I will change the order as we've indicated and sign it. And I'll look to you to work out the—the discovery scraps. And if you can't do it, let me know, we'll resolve it informally.

MR. KROFT: Thank you, your Honor.

THE COURT: All right.

MR. TREAM: Thank you, your Honor.

MR. SEAL: Thank you, your Honor.

(Which were all the proceedings held in the above-entitled matter on the date aforesaid.)

[Certificate of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

—
No. 83-2594 WPG
—

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

AND RELATED COUNTERCLAIM

—
FILED

MAR 29 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE
—

Date: April 17, 1989

Time: 9:30 a.m.

Courtroom No.: 23

SCHEDULING ORDER NO. 1

The following order shall govern the manner in which discovery and pretrial proceedings shall be carried out during the course of the litigation unless otherwise ordered by the Court. There is nothing in the Scheduling Order that will in any way preclude the Court from making any change to the Scheduling Order that it deems necessary or appropriate.

I. DISCOVERY—GENERALLY

A. All discovery, with the exception of discovery of expert witnesses as described below in Section II of this Order, shall be initiated by December 31, 1989.

B. All such discovery shall be completed by February 15, 1990.

C. All discovery disputes, upon the Court's request, shall be submitted to a United States Magistrate and shall be submitted in accordance with the Rules of this Court governing motions regarding discovery disputes.

D. No motion regarding discovery shall be filed until the parties have conferred and made a good faith effort to resolve the dispute, and each such motion shall include an affidavit or declaration from the attorney for the moving party certifying that such efforts have been made and have failed to resolve the dispute.

II. DISCOVERY OF EXPERT WITNESSES

A. On or before December 31, 1989, the parties shall serve on each other identification of all of their expert witnesses, copies of any reports prepared by those expert witnesses, and copies of all documents reviewed by those expert witnesses.

B. Any person not identified pursuant to Paragraph II.A. above shall not be permitted to testify as an expert witness at trial.

C. Depositions of all expert witnesses shall be completed within sixty days after receipt of the information described in Section II.A. above.

D. All discovery disputes regarding expert witnesses shall be resolved pursuant to the procedure set forth in Section I of this Order.

III. MOTIONS

A. All dispositive motions shall be filed by April 15, 1990. Opposition brief shall be filed and served within thirty days of service of the motion being opposed, and reply memoranda should be filed and served twenty days after service of the opposition memorandum.

B. All remaining motions, including motions to limit or to exclude evidence and to amend the pleadings, shall be filed prior to the pretrial conference.

IV. PRETRIAL CONFERENCE

A. A pretrial conference shall be scheduled after the Court rules on all dispositive motions on such date as may be convenient to the Court and the parties.

B. Not less than thirty days prior to the pretrial conference, the parties shall file and serve Pretrial Statements as set forth in Rule 9 of the Rules of the United States District Court for the Central District of California.

C. Not less than thirty days prior to the pretrial conference, the parties shall exchange copies of all exhibits that they intend to offer into evidence at trial.

D. Prior to or at the pretrial conference, each party shall file and serve its objections to exhibits. Any exhibit not objected to prior to or at the pretrial conference shall stand admitted into evidence.

E. Prior to the pretrial conference, counsel for defendants/counterclaimants shall arrange, by advance notice, a conference of counsel in order to discuss and prepare stipulated facts. A statement of stipulated facts shall be submitted at the pretrial conference.

V. TRIAL

A. Ten days before trial, each of the parties shall file and serve:

1. A proposed descriptive statement of the case to be used by the Court prefatory to voir dire examination;
2. Proposed voir dire questions;
3. Proposed special jury instructions with authorities cited; and
4. Any proposed special verdict form.

B. Two Court days before trial, each party shall file and serve all objections to any opposing party's proposed voir dire questions, prefatory statement, jury instructions, and verdict form.

Respectfully submitted,

COLLIER, SHANNON, RILL & SCOTT

By: /s/ Patrick J. Coyne

JEFFREY W. KING

By: PATRICK J. COYNE

KELLY, HERLIHY & BANE

By: /s/ Laura J. Barns

LAURA J. BARNES

Attorneys for Counterclaimants
PROFESSIONAL REAL ESTATE INVESTORS,
INC., and KENNETH IRWIN

Dated: March 27, 1989

SO ORDERED:

Dated: April 17, 1984

/s/ William P. Gray

William P. Gray

United States District
Court Judge

[Certificate of Service omitted in this printing]

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

Civil Action No. CV-83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED

SEP 13 1989

**CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE**

NOTICE OF DEPOSITION OF SPECTRADYNE

PLEASE TAKE NOTICE that on November 9, 1989, pursuant to Rules 30 and 45 of the Federal Rules of Civil Procedure, and before an individual duly authorized to administer oaths, defendants and counterclaimants Professional Real Estate Investors Inc., and Kenneth F. Irwin will take the deposition, upon oral examination, of Spectradyne, 1501 North Plano Raod, Richardson, Texas 75081, by:

- (1) those persons most knowledgeable of, and designated by Spectradyne to testify on, the subject matter identified in the attached Appendix A, and

- (2) those officers, managing agents or other persons having possession, custody, or control of documents described in the attached Appendix A.

The deposition will commence at 9:00 a.m. at the offices of Bickel & Brewer, 1800 Trammell Crow Center, 2001 Ross Avenue, Dallas, Texas 75201, or at such other time and place as counsel for the parties and the deponent may agree, and will continue from day-to-day until completed. You are invited to attend and cross examine.

The deposition shall be for the purpose of discovery, to perpetuate the testimony of the witness for use at trial, and for any other purpose(s) allowed by the Federal Rules of Civil Procedure and/or the Federal Rules of Evidence.

Pursuant to the provisions of 30(b)(1), Fed. R. Civ. P., you are hereby notified that a subpoena duces tecum pursuant to Rule 45, Fed. R. Civ. P. will be issued requiring the deponent to bring to the deposition the documents identified in the attached Appendix A.

Please identify by October 11, 1989, the person or persons designated by Spectradyne to testify on the subject matters of paragraphs one and two above.

COLLIER, SHANNON & SCOTT
JEFFREY W. KING
PATRICK J. COYNE
DAWN M. DISTEFANO
1055 Thomas Jefferson Street, N.W.
Washington, DC 20007
(202) 342-8400

KELLY, HERLIHY & BANE
LAURA J. BARNES
500 North State College Blvd.
Suite 440
Orange, California 92668

By: Patrick J. Coyne
PATRICK J. COYNE
Counsel for Defendants and
Counterclaimants Professional
Real Estate Investors, Inc.,
and Kenneth F. Irwin

Dated: 9/13/89

[Appendix A omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV-83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

NOTICE OF DEPOSITION OF MOTION PICTURE
ASSOCIATION OF AMERICA, INC.

FILED

SEP 13 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

PLEASE TAKE NOTICE that on October 24, 1989, pursuant to Rules 30 and 45 of the Federal Rules of Civil Procedure, before an individual duly authorized to administer oaths, defendants and counterclaimants Professional Real Estate Investors Inc., and Kenneth F. Irwin will take the deposition, upon oral examination, of Motion Picture Association of America, Inc. ("MPAA") 1600 Eye Street, N.W., Washington, D.C. 20006, by Mr. Jack Valenti.

The deposition will commence at 9:00 a.m. at the offices of Collier, Shannon & Scott, 1055 Thomas Jefferson Street, N.W., Washington, DC 20007, or at such other time and place as counsel for the parties and the deponent may agree, and will continue from day-to-day until completed. You are invited to attend and cross examine.

The deposition shall be for the purpose of discovery, to perpetuate the testimony of the witness for use at trial, and for any other purpose(s) allowed by the Federal Rules of Civil Procedure and/or the Federal Rules of Evidence.

Pursuant to the provisions of 30(b)(1), Fed. R. Civ. P., you are hereby notified that a subpoena *duces tecum* pursuant to Rule 45, Fed. R. Civ. P. will be issued requiring the deponent to bring to the deposition the documents identified in the attached Appendix A.

COLLIER, SHANNON & SCOTT
JEFFREY W. KING
PATRICK J. COYNE
1055 Thomas Jefferson Street, N.W.
Washington, DC 20007
(202) 343-8400

KELLY, HERLIHY & BANE
LAURA J. BARNES
500 North State College Blvd.
Suite 440
Orange, California 92668
(714) 543-0535

Dated: September 13, 1989 By: /s/ Patrick J. Coyne

PATRICK J. COYNE

Counsel for Defendants and
Counterclaimants, Profes-
sional Real Estate Investors,
Inc., and Kenneth F. Irwin

[Appendix A omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV-83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

NOTICE OF DEPOSITION OF RCA COLUMBIA
PICTURES

FILED

SEP 13 1989

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

PLEASE TAKE NOTICE that on October 19, 1989 pursuant to Rules 30 and 45 of the Federal Rules of Civil Procedure, before an individual duly authorized to administer oaths, defendants and counterclaimants Professional Real Estate Investors Inc., and Kenneth F. Irwin will take the deposition, upon oral examination, of RCA Columbia Pictures ("RCA") 3500 West Olive Avenue, Third Floor, Burbank, California 91505, by:

- (1) those persons most knowledgeable of, and designated by RCA to testify on, the subject matter identified in the attached Appendix A, and
- (2) those officers, managing agents or other persons having possession, custody, or control of documents described in the attached Appendix A.

The deposition will commence at 9:00 a.m. at the offices of Kelly, Herlihy & Bane, 500 North State College Blvd., Suite 440, Orange, California 92668, or at such other time and place as counsel for the parties and the deponent may agree, and will continue from day-to-day until completed. You are invited to attend and cross examine.

The deposition shall be for the purpose of discovery, to perpetuate the testimony of the witness for use at trial, and for any other purpose(s) allowed by the Federal Rules of Civil Procedure and/or the Federal Rules of Evidence.

Pursuant to the provisions of 30(b)(1), Fed. R. Civ. P., you are hereby notified that a subpoena *duces tecum* pursuant to Rule 45, Fed. R. Civ. P. will be issued requiring the deponent to bring to the deposition the documents identified in the attached Appendix A.

Please identify by October 5, 1989 the person or persons designated by RCA to testify on the subject matters of paragraphs one and two above.

JA-534

COLLIER, SHANNON & SCOTT
JEFFREY W. KING
PATRICK J. COYNE
1055 Thomas Jefferson Street, N.W.
Washington, DC 20007
(202) 343-8400

KELLY, HERLIHY & BANE
LAURA J. BARNES
500 North State College Blvd.
Suite 440
Orange, California 92668
(714) 543-0535

Dated: 9/13/89

By: /s/ Patrick J. Coyne

PATRICK J. COYNE

Counsel for Defendants and
Counterclaimants, Profes-
sional Real Estate Investors,
Inc., and Kenneth F. Irwin

[Appendix A omitted in this printing]

JA-535

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIM

**NOTICE OF HEARING ON PLAINTIFFS' MOTION FOR
SUMMARY JUDGMENT AS TO FIRST, SECOND AND
THIRD COUNTERCLAIMS AND FOR DISMISSAL OF
REMAINING PENDENT CLAIMS**

Date: December 11, 1989

Time: 10:00 a.m.

TO THE DEFENDANTS AND COUNTERCLAIM
PLAINTIFFS PROFESSIONAL REAL ESTATE INVESTORS,
INC., ET AL. AND TO COLLIER, SHANNON & SCOTT,
THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that on December 11, 1989, at
10:00 a.m., or as soon thereafter as counsel may be heard,
in the courtroom of the Honorable William P. Gray, United
States District Judge, located at the Courthouse of the
United States Court of Appeals for the Ninth Circuit, 125
South Grand Avenue, Pasadena, California, plaintiffs and
counterclaim defendants will move the court to enter sum-
mary judgment in their favor as to the First, Second and

Third Counterclaims alleging violations of the federal antitrust laws and will further move the court to dismiss the remaining pendent claims asserted under state law against the counterclaim defendants. Said motion will be made pursuant to Rule 56, Federal Rules of Civil Procedure, on the grounds set forth in the accompanying "Memorandum of Points and Authorities Submitted by Plaintiffs in Support of Their Motion for Summary Judgment as to First, Second and Third Counterclaims and for Dismissal of Remaining Pendent Claims" and will be based upon the pleadings and records on file herein and the judgment of the United States Court of Appeals for the Ninth Circuit in this matter.

Dated: September 22, 1989

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
MARC D. WINSBERG

By: /s/ James L. Seal
James L. Seal
Attorneys for Plaintiffs/
Counterclaim Defendants

**[Verification and Proof of Service omitted
in this printing]**

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,
vs.
PROFESSIONAL REAL ESTATE INVESTORS, INC.,
etc., et al.,
Defendants.
AND RELATED COUNTERCLAIM.

**NOTICE OF LODGING OF COPY OF HEARING
TRANSCRIPT**

**Date: December 11, 1989
Time: 10:00 a.m.**

TO THE DEFENDANTS AND COUNTERCLAIM
PLAINTIFFS PROFESSIONAL REAL ESTATE INVESTORS,
INC., ET AL. AND TO COLLIER, SHANNON & SCOTT,
THEIR COUNSEL OF RECORD:

PLEASE TAKE NOTICE that on today's date the plaintiffs and counterclaim defendants lodged with the court a copy of the "Reporter's Transcript of Proceedings" held in this matter on March 24, 1986, in the form appended hereto as Exhibit 1.

JA-538

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
MARC D. WINSBERG

By James L. Seal
James L. Seal
Attorneys for Plaintiffs/
Counterclaim Defendants

Dated: September 27, 1989

JA-539

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV-83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, Inc., et al.,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., ET AL.,
Defendants,

AND RELATED COUNTERCLAIM.

SPECTRADYNE'S OBJECTION TO DEPOSITION
SUBPOENA PURSUANT TO F.R.C.P. 45(D) (1)

Pursuant to Federal Rules Civil Procedure Rule, 45(d)(1), Spectradyne, Inc., hereby objects to production, inspection and copying of the materials designated in the deposition subpoena served upon Spectradyne on September 14, 1989, on the following grounds:

Objection To Designation Request

Spectradyne objects to the subpoena duces tecum because it does not describe with reasonable particularity the matters on to "the subject matter identified in the attached Appendix A," but there is no such "subject matter" identification in that appendix. Spectradyne is therefore unable to make the witness designation required under Fed. R. Civ. P 30 (b) (6). Spectradyne further objects to the request to file such designation in advance of the date of the deposition.

General Objections As To All Document Categories

1. There is no time period specified in any of the document categories. The requests are therefore overbroad, and the subpoena requests documents with no relevance to the subject litigation.

2. The documents requested include confidential Spectradyne business information which must not be disclosed to competitors of Spectradyne. An "attorneys' eyes only" protective order is the only reasonable way to protect Spectradyne, which is only a possible witness for this litigation. Spectradyne will not produce any confidential material until a satisfactory protective order limiting disclosure to officers of this Court is agreed upon by the parties to this action.

3. The document requests are framed in broad categories which give little indication as to which files need to be searched or the time period covered. Consequently, Spectradyne may need to inspect numerous cartons of documents which have been sent to storage, and hire special assistants to perform the search necessary to comply with the subpoena duces tecum. Depending on Defendant's narrowing of his request, this will require considerable time to accomplish, and will involve significant expense to Spectradyne. Therefore, Spectradyne will not begin this search until (1) agreement has been reached narrowing the document requests, in order to avoid duplicative searches and (2) reasonable costs are advanced to Spectradyne.

4. Spectradyne further objects generally because the subpoenaed documents call for Spectradyne's privileged attorney work product and client-communications and because the requests are overbroad and not reasonably calculated to lead to admissible evidence.

September 27, 1989
date

Spectradyne, Inc.

By: David E. Tripp
David E. Tripp
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[Proof of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

—
No. 83-2594 WPG
—

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

STIPULATION AND ORDER RE BRIEFING SCHEDULE
AND HEARING DATE FOR COUNTERDEFENDANTS'
MOTION FOR SUMMARY JUDGMENT

Present Hearing Date:

December 11, 1989

New Hearing Date:

December 18, 1989

IT IS HEREBY STIPULATION by the parties, through their attorneys of record, subject to the approval of this Court, as follows:

1. Counterclaimants Professional Real Estate Investors, Inc. and Kenneth Irwin ("Irwin") shall have to and including November 8, 1989, to file their memorandum and supporting papers in opposition to counterdefendants' motion for summary judgment;

2. Irwin's opposition shall be served for receipt by Rosenfeld, Meyer & Susman on or before November 8, 1989;

3. Counterdefendants shall have to and including December 11, 1989, within which to file their reply papers, if any;

4. Counterdefendants' reply papers, if any, shall be served for receipt by Collier, Shannon, Rill & Scott on or before December 12, 1989; and

5. The hearing on counterdefendants' motion for summary judgment shall be continued from December 11, 1989, to December 18, 1989, at 10:00 a.m.

DATED: Oct. 26, 1989 COLLIER, SHANNON, RILL &
SCOTT

KELLY, HERLIHY & BANE

By Laura J. Barns
Laura J. Barns

Attorneys for Defendants and
Counterclaimants

DATED: Oct. 26, 1989 ROSENFELD, MEYER & SUSMAN

By James L. Seal
James L. Seal

Attorneys for Plaintiffs and
Counterdefendants

ORDER

IT IS SO ORDERED.

DATED: _____, 1989. _____
UNITED STATES DISTRICT
JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

COUNTERCLAIMANTS' MEMORANDUM IN OPPOSITION
TO COUNTERDEFENDANTS' MOTION FOR SUMMARY
JUDGMENT

Hearing Date: December 18, 1989

Hearing Time: 10:00 a.m.

[Table of Contents omitted in this printing]

Counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin ("Irwin"), respectfully submit this memorandum in opposition to Counterdefendants' Columbia Pictures Industries, Inc., *et al.* ("Counterdefendants"), motion for summary judgment on Irwin's counterclaims. Irwin has filed counterclaims detailing counterdefendants' violations of federal state antitrust law and California statutory and common law regulating commercial and trade practices.

The essence of counterdefendants' argument is that Irwin's antitrust counterclaims are based upon the conten-

tion that counterdefendants' filing of a copyright infringement action against, and refusing to license, Irwin constituted an antitrust conspiracy. Alleging their copyright claims were colorable, counterdefendants claim that their copyright infringement suit cannot be the basis for antitrust liability, as a matter of law.

Counterdefendant's argument not only mischaracterizes Irwin's claims and the governing law, but misstates the facts. Based on publicly available information, counterdefendants knew, and in fact admitted, that their claim against Irwin lacked merit. The very essence of the type of lawsuit that gives rise to antitrust liability is one filed, as counterclaimants did here, knowing that it lacks merit. Moreover, given counterdefendants' steadfast refusal to provide any meaningful discovery on Irwin's counterclaims, they cannot now claim some benefit from the fact that the record is not yet fully developed. Employing the correct legal analysis and assessing all of the factual bases for Irwin's counterclaims, Irwin's claims are valid and, in any event, substantial enough to warrant a full hearing.

BACKGROUND

On April 25, 1983 counterdefendants sued Irwin for copyright infringement. Counterdefendants alleged that the playing of videos by guests in the private lodging areas of Irwin's La Mancha Private Club and Villas constituted public performance because those guest rooms were public places. Irwin denied liability and counterclaimed, detailing counterdefendants' numerous violations of both federal and state law.

Irwin's First, Second, and Third Counterclaims address counterdefendants' intent to restrain and eliminate trade and commerce in the retail sale and rental of videos and, in particular, in the rental of videos for private viewing in hotel rooms, in violation of Sections 1 and 2 of the

Sherman Act. 15 U.S. §§ 1 and 2. Counterdefendants' anticompetitive activities include:

- Filing this copyright infringement action which they knew was groundless;
- Boycotting and concertedly refusing to grant licenses to Irwin; Misusing their copyrights by employing threatening notices on videos that state viewing of the video is restricted to "home use" and that non-home use will subject the user to civil and criminal penalties, in conjunction with the FBI symbol;
- Through their trade associations placing threatening advertisements in hotel trade journals warning hotels against "stealing" counterdefendants' copyrights by renting or using videos;
- Discriminating among licensees by charging different license fees to different distributors, possibly to punish distributors that sell to businesses that rent videos; and other improper acts.

Irwin's Fourth, Fifth, Sixth, and Seventh Counterclaims detail further violations of California statutory and common law regulating commercial and trade practices.

Both parties pursued discovery in this case. Irwin made Mr. Kenneth F. Irwin available for depositions and produced thousands of pages of documents. On January 7, 1985, Irwin served on each of the counterdefendants Requests for Production of Documents Nos. 1-40. Counterdefendants objected to all 40 document requests. Although they stated that they would provide Irwin an opportunity to inspect and copy documents, they refused to provide any discovery on the counterclaims. Irwin was forced to file a motion to compel production of the documents. Just before the hearing date, however, counterdefendants retained new counsel in the case. The Court requested that Irwin attempt to secure cooperation from counterclai-

nants' new counsel and did not rule on the motion to compel.

At the Court's request, the parties postponed further discovery on the counterclaims pending resolution of the infringement issue. On December 16, 1985, the Court ruled in Irwin's favor, holding that viewing videos in the privacy of a rental lodging is non-public and, thus, does not infringe any of counterdefendants' copyrights. Following the Court's ruling, Irwin again attempted to secure responses to their outstanding discovery requests. Yet, counterdefendants again refused to cooperate and Irwin was forced to file a second motion to compel on March 3, 1986.

On March 24, 1986, the Court, while emphasizing that discovery is required for resolution of the counterclaims, stayed discovery on the counterclaims pending resolution of the appeal of the copyright infringement claims. On January 17, 1989, the Ninth Circuit, in a unanimous decision, affirmed this Court's holding in Irwin's favor. *Columbia Pictures, Inc., et al. v. Professional Real Estate Investors, Inc., et al.*, 866 F.2d 278 (9th Cir. 1989). The mandate was lodged on March 20, 1989. At that time, the Court again noted that discovery was necessary to resolve the counterclaims.

In spite of the Court's explicit direction, counterdefendants have refused to provide the discovery necessary to resolve Irwin's counterclaims. In June 1989, counterdefendants agreed that they would produce certain documents, but only by August 30, 1989. No documents were produced. Finally, in September, counterdefendants delivered a limited number of license agreements with RCA for inspection by Irwin. In addition, they have produced less than a dozen warning labels from various videos. Counterdefendants have provided no substantive information in response to Irwin's remaining requests.

For example, counterdefendants have not produced any materials relating to: organizational charts (Request No.

11); communications, meetings, agreements, etc., between counterdefendants and others relating to video rentals (Request Nos. 20, 23, 26, 28, and 38); policies or practices regarding video rentals (Request Nos. 22, 24, 25, 32, and 33); materials relating to meetings at which video rental was discussed (Request Nos. 27 and 35); the involvement of the Motion Picture Association of America, Inc. ("MPAA") (Request No. 29); internal memoranda regarding video rentals (Request Nos. 24 and 34); and other issues. This information is essential, not only to identify the scope of counterdefendants' unlawful activities, but in order to assess their impact on the market for private video viewing, particularly in rental accommodations. Although Irwin has made substantial concessions on the scope of their requests, counterdefendants simply refuse to cooperate. In view of counterdefendants' continued refusal to grant Irwin any meaningful discovery, Irwin is forced to file a third motion to compel production of the same documents. Counterdefendants have now moved for summary judgment, while withholding the very information required to resolve their motion.

SUMMARY OF ARGUMENT

Defendants assert four basic claims in their motion for summary judgment. None of these claims can withstand scrutiny.

1. First, defendants argument that their suit was colorable and, therefore, cannot be considered a "sham" under the antitrust laws ignores the facts already developed in this case. A suit is a sham and, therefore, subject to antitrust liability if it is brought with knowledge that it lacks merit or without regard to its merit. *See, e.g., In re Burlington, Inc.*, 822 F.2d 518 (5th Cir. 1987). Counterdefendants brought their copyright suit against Irwin notwithstanding that they knew, and had previously admitted, that it lacked merit.

Specifically, counterdefendants participated in the development of the copyright law. In so doing, they sought to restrict the rental of videos and to include hotels within the definition of public places, so that the viewing of videos in hotel rooms would be considered public performance. Counterdefendants knew that they did not prevail on these issues. In fact, after the law was enacted, counterclaimants went back to Congress to again seek restrictions on rentals, which were again rejected by Congress. This alone reflects counterdefendants' awareness that the law did not support their claims for copyright infringement. Perhaps, more telling, in a lawsuit filed prior to the *Irwin* case, counterdefendants admitted that the very claims they raised against Irwin were not well founded and that the viewing of videos in a hotel room is not public performance under the copyright law.

Second, Irwin does not allege merely a single copyright infringement suit as the sole basis of its antitrust counterclaims. Rather, Irwin has claimed that defendants have engaged in a pattern of instituting or threatening to institute lawsuits in order to inhibit the development of a video rental market in the hotel and resort market. Irwin has identified at least one other such suit threatened by counterdefendants and has outstanding discovery requests to ascertain additional information on this issue. The very fact that counterdefendants have resisted this discovery now precludes their motion for summary judgment.

Third, defendants ignore the fact that Irwin has claimed that this lawsuit is but a part of a larger conspiracy. That conspiracy consists of a number of other activities, such as a group boycott, improper copyright notices, intimidation of the trade, and similar activities. The courts have recognized that a lawsuit is not protected from antitrust scrutiny under the *Noerr-Pennington* doctrine if it is a part of a broad antitrust conspiracy.

2. Counterdefendants next contend, in a classic bootstrap argument, that they could not have monopolized the video rental market because Irwin's actions were ultimately vindicated by this Court and the Ninth Circuit. Counterdefendants argue that their group boycott to deny Irwin licenses had no effect because Irwin did not really need a license after all. This argument ignores the injury to competition inflicted by counterdefendants for the past six years, when Irwin attempted to market their video system under the cloud of this lawsuit. It also ignores the fact that, until Irwin prevailed at the Ninth Circuit, counterdefendants steadfastly held to their position that licenses were required. They also steadfastly refused to provide them.

3. Counterdefendants next argue that Irwin has suffered no antitrust injury. This argument ignores the fact that counterdefendants' actions have precluded Irwin from developing and selling their video rental system to other hotels. Counterdefendants simply conclude, without any factual or legal support, that competition could not have been restrained and that Irwin could not have been injured. These matters are strongly contested. They present genuine issues of material fact which cannot be resolved without the benefit of discovery. Declaration of Patrick J. Coyne ("Coyne Decl."). Once discovery has been completed, the record will show that Irwin attempted to market their system and was rejected on each such attempt, being told that the risk of litigation by these counterdefendants was too great for the prospective customer to take. The record will show further that, having been able to inhibit the development of this market, counterclaimants may have destroyed any possibility of developing it in the future. Declaration of Kenneth F. Irwin ("Irwin Decl.").

4. Finally, defendants argue that Irwin's state law counterclaims must be dismissed if Irwin's federal antitrust claims are dismissed. Counterdefendants are simply wrong on the law. The state law claims are not pendent solely

to Irwin's federal antitrust counterclaims. Rather, they are also compulsory counterclaims relative to counterdefendants' original copyright infringement claims. As such, this Court's jurisdiction is not dependent on Irwin's federal counterclaims. To the same extent that counterdefendants' claims of copyright infringement were validly before the Court, Irwin's compulsory state law counterclaims properly remain so.

ARGUMENT

I.

COUNTERDEFENDANTS HAVE FAILED TO CARRY THEIR BURDEN FOR SUMMARY JUDGMENT

In order to secure summary judgment under Fed. R. Civ. P. 56, counterdefendants must demonstrate the absence of any genuine issue of material fact and that they are entitled to judgment as a matter of law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242 (1986). They can do neither. In resolving counterdefendants' motion, the Court must view all facts in a light most favorable to Irwin and draw all favorable inferences from such facts. *National Indus. v. Republic Nat'l Life Ins. Co.*, 677 F.2d 1258 (9th Cir. 1982); *Castenada v. Dura-Vent Corp.*, 648 F.2d 612 (9th Cir. 1981). Numerous genuine issues of material fact remain, primarily because counterdefendants have refused to cooperate in discovery. Moreover, counterdefendants are not entitled to a summary judgment as a matter of law.

Counterdefendants assert that they are entitled to summary judgment under a rule of reason analysis. The rule of reason, however, specifically requires "a balancing of the arrangement's positive and negative effects on competition," *Cascade Cabinet Co. v. Western Cabinet & Millwork*, 710 F.2d 1366, 1373 (9th Cir. 1983). Under the rule of reason, "the factfinder weights all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on

competition." *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 35, 49 (1977). The importance of having a sufficient factual basis to apply a rule of reason analysis has been recognized by the Supreme Court:

The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine the question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts.

Chicago Board of Trade v. United States, 246 U.S. 231, 238 (1918). Hence, summary judgment is rarely appropriate in an antitrust case. *Poller v. Columbia Broadcasting System*, 368 U.S. 464 (1962).

On their motion for summary judgment, counterdefendants are required to come forward with affirmative and uncontroverted evidence that they are entitled to relief. It is not enough to argue, as do counterdefendants, that Irwin has not adduced sufficient proof to prevail. That is the purpose of discovery; discovery which counterdefendants have now resisted for almost five years. Counterdefendants' refusal to cooperate in that discovery signifies that there is more to Irwin's claims than counterdefendants admit. Rather than simply providing the information which they contend will exculpate them, counterdefendants have continued to evade the issues. Although there are already sufficient facts of record to preclude summary judgment, they continue to resist the only reasonable av-

enue of resolving the counterclaims—full and open discovery.

II.

COUNTERDEFENDANTS' CONDUCT IS NOT PROTECTED BY THE NOERR-PENNINGTON DOCTRINE

Counterdefendants claim that the initiation of the underlying lawsuit against Irwin is immune from antitrust scrutiny because it is protected First Amendment speech under the *Noerr-Pennington* doctrine. Counterdefendants' Memorandum at 6 ("Counter. Mem."). They argue that, since the underlying suit was colorable, Irwin cannot establish that the "sham exception" applies—as a matter of law. Counter. Mem. at 10-14.¹

Under the *Noerr-Pennington* doctrine, genuine and legitimate attempts to influence passage or enforcement of laws are immune from antitrust scrutiny. *United Mine Workers v. Pennington*, 381 U.S. 657, 669-71 (1965); *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 137-139 (1961). In *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), the Court extended *Noerr-Pennington* immunity to good faith attempts to secure legitimate goals through use of the courts. The immunity from antitrust scrutiny conferred by *Noerr-Pennington*, however, is not absolute. That immunity does not extend to attempts to influence the government or the courts which are a "mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor."

¹ Counterdefendants rely heavily on decisions construing Rule 11 and take pains to avoid the substantial body of Ninth Circuit jurisprudence on the sham exception. Although violation of Rule 11 may well reflect that a suit is baseless, Rule 11 is irrelevant to counterdefendants' motion, which must be resolved under the antitrust decisions of this circuit.

California Motor Transport, 404 U.S. at 511 (quoting *Noerr*, 365 U.S. at 144).

Counterdefendants do not dispute the fact that a frivolous suit is a sham and is not protected from antitrust scrutiny under the *Noerr-Pennington* doctrine. Rather, counterdefendants claim that "[w]here a complaint asserts a non-frivolous claim, the complaint, even if ultimately unsuccessful, is not a 'sham' as a matter of law." Counter. Mem. at 13. If, however, the party did not in fact have an honest belief that the claim was meritorious, the sham exception applies. *In re Burlington Northern, Inc.*, 822 F.2d 518, 529 (5th Cir. 1987). Consequently, the issue on counterclaimant's motion properly is whether or not counterdefendants actually had, and not whether they merely could have had, a good faith belief that their infringement claims were valid. Even a single lawsuit brought with knowledge that it lacks merit is sufficient to give rise to antitrust liability. *Rickards v. Canine Eye Registration Foundation*, 783 F.2d 1329, 1332 (9th Cir.); cert. denied, 479 U.S. 851 (1986); *Energy conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 388 (9th Cir. 1986); *Clipper Express v. Rocky Mountain Motor Tariff Bureau*, 690 F.2d 1240, 1255 (9th Cir. 1982), cert. denied, 459 U.S. 1227 (1983).

Counterdefendants rely upon *Omni Resource Corp. v. Conoco, Inc.*, 739 F.2d 1412 (9th Cir. 1984), and *Hydro Tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171 (10th Cir. 1982), for the proposition that a non-frivolous claim cannot be a sham as a matter of law and, therefore, intent is irrelevant. Neither case so holds. Both cases require that the litigant have proceeded in good faith and have a "legitimate expectation" of prevailing. *Omni Resource*, 739 F.2d at 1413. No such legitimate expectation can exist where, as here, the plaintiff knows its claims are false. Claims filed by a party knowing they are meritless are far more onerous than those simply lacking probable cause. *Hydro-Tech*, 673 F.2d at 1177. They serve to defraud the

court and abuse the judicial process. The facts of record amply demonstrate that Counterdefendants did not have the required good faith.

Counterdefendants contend that the underlying suit was not baseless and, thus, not a sham because: (1) the copyright issue was one of first impression, Findings of Fact, Conclusions of Law, and Order at 6 (January 5, 1986); and (2) after granting the motion for summary judgment in Irwin's favor in the underlying action, the District Court noted "I think the issue on which I granted summary judgment is a very close one." Hearing Transcript at 3. Counterdefendants then argue that their intent in initiating this action is irrelevant.

Yet, the evidence already of record establishes that counterdefendants knew their copyright infringement action was without merit. Such conduct violates the antitrust laws. *Rickards v. Canine Eye Registration Foundation*, 783 F.2d at 1334; see also *Winterland Concessions Co. v. Trela*, 735 F.2d 257, 263 (7th Cir. 1984); and *Hydro-Tech Corp. v. Sundstrand Corp.*, 673 F.2d at 1175. *Noerr-Pennington* does not protect claims where the results intended are "not by the result of the litigation, but by the simple fact of the institution of the litigation," which the law proscribes. *Winterland Concessions*, 735 F.2d at 264 (emphasis in original).

"Determining whether the petitioning conduct is a sham often involves questions of motive or subjective intent . . . whether the litigant wished to obtain its anticompetitive end through obtaining court-rendered relief or simply through the filing and maintenance of the lawsuit." *G. Heileman Brewing Co. v. Anheuser-Busch, Inc.*, 676 F. Supp. 1436, 1476 (E.D. Wis. 1987), *aff'd*, 873 F.2d 985 (9th Cir. 1989) See also *Westmac, Inc. v. Smith*, 797 F.2d 313, 317 (6th Cir. 1986) (noting that "intent is relevant when a party allegedly filed a suit without concern for obtaining a favorable judgment, but only to directly harm

a competitor"). That is precisely what counterdefendants intended in this case—to bring a suit they had previously admitted was baseless in order to pressure Irwin to abandon its rental program rather than fight, just as counterdefendants had done to other hotels prior to bringing this case. *In re Burlington Northern, Inc.*, 822 F.2d at 529. See *G. Heileman Brewing Co.*, 676 F.Supp. at 1476. See also *Grip-Pak, Inc. v. Illinois Tool Works, Inc.* 694 F.2d 466, 472 (7th Cir. 1982), *cert. denied*, 461 U.S. 958 (1983) ("litigation could be used for improper purposes even where there is probable cause for the litigation; and if the improper purpose is to use litigation as a tool for suppressing competition . . . it becomes a matter of antitrust concern").

In bringing this action, counterdefendants claimed that performances of videos at La Mancha were public, only because the guest lodgings at La Mancha are allegedly "public" places. Counterdefendants, however, knew that the lodging accommodations at Irwin's facility are private, not public, places. These same counterdefendants, through the same counsel, admitted in *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F. Supp. 315 (M.D. Pa. 1985), that hotel rooms, dormitory rooms, and apartments "are not open to the public . . ." *Plaintiffs' Brief in Opposition to Defendants' Cross-Motion for Summary Judgment and in Reply-Support of Plaintiffs' Motion for Summary Judgment in Columbia Pictures Indus., Inc. v. Aveco, Inc.*, at 7. In *Aveco*, the infringement defendants introduced the hypothetical of a salesman who takes a video to a hotel room and plays it there, to illustrate that their facility was not "public." Although counterdefendants argued that the *Aveco* facility was not a hotel, they expressly admitted in *Aveco* that "it is clear that [hotel rooms] are not open to the public." *Id.*

Since at least the earliest days of Congressional consideration of the present Copyright Act, counterdefendants have attempted to expand their performance rights in vi-

deos in a manner that would cover all rentals, including rentals for private viewing in hotel rooms. Counterdefendants urged the Register of Copyrights, as early as 1961, that their performance rights in motion pictures should be extended to what Congress determined to be private performances. The Register directly addressed the rental of videos for private viewing in her 1961 report, and rejected counterdefendants' arguments. Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, Copyright Law Revision 29, 87th Cong., 1st Sess. (Comm. Print 1961).

In enacting the Copyright Act, Congress recognized that hotel accommodations are private, not public, places. Congress referred throughout the legislative history to "private hotel rooms" and distinguished such private accommodations from the common areas of a hotel. Supplemental Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, Copyright Law Revision, Part 6 at 43-44, 89th Cong., 1st Sess. (Comm. Print 1965), *accord*, H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79, *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659 at 91-92; 17 U.S.C. § 111(a)(1). See also Appellee's Brief in *Columbia Pictures Industries, Inc., et al. v. Professional Real Estate Investors, Inc., et al.* ("Appellee's Brief") at 17-19.

Counterdefendants knew that Congress chose not to prohibit or limit the rental of video movies for private viewing. Undeterred, they went back to Congress in the early 1980s, attempting once again to secure the right to control rentals for private viewing of videos, including private viewing in hotel rooms. S.31, S.175, 98th Cong., 1st Sess. (1983); *see also* Appellee's Brief at 31. Once again, Congress refused to adopt counterdefendants' construction. The mere fact that they sought this legislative change further reflects counterdefendants' recognition that the Copyright Act does not prohibit rentals of videos for private viewing.

Knowing that hotel rooms are private and not public, counterdefendants nonetheless maintained this action. They did not have an honest, let alone reasonable, belief that their copyright infringement action—premised on the argument that a hotel room is a public place—was meritorious. Counterdefendants knew that the hotel is a private place and that their claims to the contrary in this case were baseless and a sham. The courts have repeatedly recognized that initiating a lawsuit in such circumstances may result in antitrust liability. The *Noerr-Pennington* doctrine does not protect unethical conduct and misrepresentations. *California Motor Transport v. Trucking*, 404 U.S. 609 (1972); *St. Josephs Hospital v. Corp. of America*, 795 F.2d 948, 955, *reh'g en banc denied*, 801 F.2d 404 (11th Cir. 1986). "The First Amendment has not been interpreted to preclude liability for false statement." *Clipper Express v. Rocky Mountain Motor Tariff Bureau*, 690 F.2d 1240, 1261 (1982). See also *Allied Tube Conduit Corp. v. Indian Head, Inc.*, 108 S. Ct. 1931 (1988). At the very least, substantial genuine issues of material fact remain regarding the state of counterdefendants' knowledge. Coyne Decl.

Counterdefendants' allegation that their copyright infringement claims in this action are the only basis for Irwin's counterclaims is simply inaccurate.² Irwin has alleged that counterdefendants have engaged in an illegal pattern of activity. This pattern includes filing or threatening to file other lawsuits. Irwin is already aware of at least one other such threatened lawsuit. Irwin has sought discovery to ascertain other lawsuits counterdefendants have filed or threatened. This pattern of sham litigation

² Counterdefendants' reliance on the *Omni Resource* decision for the proposition that a single groundless suit is insufficient to give rise to liability is misplaced. Irwin has alleged that counterdefendants' pattern of baseless suits is a part of a broader unlawful conspiracy by counterdefendants.

further supports Irwin's counterclaims. Hence, Irwin's counterclaims are based not merely on the fact that counterdefendants brought in this action infringement claims they knew were false, but that they brought this suit and similar suits knowing that they were baseless. *Otter Tail Power Co. v. U.S.*, 410 U.S. 366 (1973).

Moreover, counterdefendants' pattern of unlawful conduct is not limited to the filing of this and other lawsuits. Counterdefendants in their memorandum address only two of their anticompetitive activities—the filing of this action knowing it was groundless and their concerted refusal to license. Yet, Irwin has identified a number of other acts of counterdefendants individually, and in concert with others, by which they have attempted to restrict the development of a rental market for videos, and, in particular, for viewing in private rental accommodations. Counterdefendants undertook these activities in order to maintain their monopoly over the distribution of motion pictures to hotels and resorts in return for a substantial royalty. These programs generally involve the transmission of various movies to each hotel room at preset times through a cable system.

In addition to filing this infringement suit knowing performances at La Mancha are private and refusing to license video viewing in hotels, Irwin understands that individually and in concert with others: (1) counterdefendants restrict their licensed distributors of videotapes and discs from selling to businesses that intend to rent the videos for any use outside the home; (2) counterdefendants brought this action, and brought or threatened to bring similar actions against other hotels and resorts renting videos, to thwart the development of the video alternative; (3) counterdefendants misused their copyrights by employing threatening notices on videos that state viewing of the video is restricted to "home use" and that non-home use will subject the user to civil and criminal penalties, in conjunction with the FBI symbol; (4) counterdefendants,

through their trade associations, used other threatening actions such as placing advertisements in hotel trade journals warning hotels against "stealing" counterdefendants' copyrights by renting or using videos; and (5) counterdefendants may also discriminate among their licensees by charging different license fees to different distributors, possibly to punish distributors that sell to businesses that rent videos for private use outside the home.

Having neglected to even address these further anti-competitive activities, counterdefendants have not satisfied their burden of production. *Celotex Corp. v. Catrett*, 477 U.S. 332 (1986). Moreover, even had they adduced evidence on these issues, summary judgment is improper because genuine issues of material fact exist as to the magnitude of these anticompetitive activities and their effect on competition.

Although a number of these claims are not yet fully developed, that circumstance is the direct result of counterdefendants' steadfast refusal for the past five years to provide any meaningful discovery. Having refused to provide this discovery, as to information uniquely within their possession, counterdefendants cannot claim a benefit on this motion from their own recalcitrance. To the contrary, the fact that counterdefendants have to steadfastly refused to provide the requisite discovery is itself indicative that their actions violate the antitrust laws. At a minimum, the fact that the copyright infringement litigation against Irwin and similar cases and threats against others were part of a broader conspiracy is itself sufficient to take the litigation out of the realm of *Noerr-Pennington* protection.

III.

COUNTERDEFENDANTS ARE NOT ENTITLED TO SUMMARY JUDGMENT AS A MATTER OF LAW ON THEIR CONCERTED REFUSAL TO GRANT IRWIN LICENSES FOR THE RENTAL OF VIDEODISCS

Counterdefendants argue further that their concerted refusal to grant licenses to Irwin to rent videos cannot violate the antitrust laws as a matter of law. In view of the rulings by both this Court and the Ninth Circuit that Irwin has the right to rent videodiscs to guests without a license, counterdefendants argue that their concerted refusal to deal cannot have restrained trade or injured Irwin. Thus, they contend, Irwin cannot establish an essential element of a Section 1 or Section 2 claim—antitrust injury. Counterdefendants' argument is legally and factually without merit.

Counterdefendants' argument flies in the teeth of their contention that the infringement suit was not a sham. On one hand, counterdefendants argue that the copyright infringement claims were brought in good faith. Yet, they concede that they had no right to exclude anyone from performing videos in hotel rooms. They now apparently contend that everyone should have known they would not prevail on their infringement claims and, therefore, could not reasonably have believed them. Counterdefendants cannot have it both ways.

If, as counterdefendants assert, the copyright infringement claim was arguably "colorable" and brought with "probable cause," the effect of their concerted refusal to deal cannot be ignored. If Irwin's potential customers for their in-room viewing system feared becoming embroiled in litigation absent a license, and refused to purchase Irwin's system because of that concern, counterdefendants' concerted refusal to deal has injured Irwin and restrained competition. Irwin Decl. The extent to which counterdefendants' conduct has inhibited the development of a mar-

ket for in-room video viewing systems can be resolved only through discovery.

Counterdefendants argue further that their concerted refusal to license Irwin to rent videodiscs to their hotel guests is not a *per se* violation of Section 1 of the Sherman Act. Counter. Mem. at 16-18. Whether or not their concerted refusal to deal is a *per se* violation is irrelevant.³ Counterdefendants, not Irwin, have moved for summary judgment and they must establish affirmatively that there are no genuine issues of material fact and that they are entitled to summary judgment as a matter of law.

IV.

IRWIN HAS SUFFERED ANTITRUST INJURY

Genuine issues of material fact remain as to whether counterdefendants' concerted refusal to deal has restrained competition in the videodisc market. Irwin was a licensed RCA dealer and intended to market in-room video systems to other hotels. Irwin Decl. at ¶ 2-3. Hotel operators, however, declined to purchase Irwin's system, absent a license. Irwin was, therefore, precluded from developing a viable video rental system as a direct result of counterdefendants' unlawful conduct. Irwin Decl. at ¶ 4.

³ Horizontal agreements among suppliers refusing to deal with particular customers or classes of customers, as have counterdefendants, are typically referred to as concerted refusals to deal or "group boycotts." Traditionally, concerted refusals to deal are *per se* unlawful. In *Klors, Inc. v. Broadway Hale Stores, Inc.*, 359 U.S. 207 (1959); *Charley's Taxi Radio Dispatch v. Sida of Hawaii*, 810 F.2d 869, 876 (9th Cir. 1987); *Regents of University of California v. ABC, Inc.*, 747 F.2d 511, 516 (9th Cir. 1984). *Northwest Wholesale Stationers, Inc. v. Pacific Stationary & Printing Co.*, 472 U.S. 284 (1985), cited by counterdefendants, does not remove boycotts from the *per se* category. The court in that case found a cooperative buying arrangement, which is vastly different from counterdefendants' classic boycott of Irwin, was not a group boycott.

Numerous issues of material fact remain as to the extent of Irwin's losses and the effect on competition in general of counterdefendants' concerted refusal to license and other activities. These include: (1) the extent to which Irwin was restrained from marketing their system; (2) the potential market for Irwin's system, absent counterdefendants' concerted refusal to deal; (3) the extent to which counterdefendants' actions induced hotel operators to decline to purchase Irwin's system; (4) the extent to which others would have developed further lawful systems to compete with Spectradyn; etc. If more hotels had acquired and implemented in-room video viewing systems, competition in the video industry would have been enhanced. Moreover, Irwin's video system made in-room viewing technology available to smaller hotels, which may not have been able to justify the cost of a Spectradyn video system. Irwin Decl. at ¶ 4. These fact issues must be resolved in order to determine whether competition has been restrained and whether counterdefendants' concerted refusal to deal violates Section 1 of the Sherman Act. They cannot be resolved without the benefit of discovery.

V.

SUMMARY JUDGMENT IS NOT PROPER BECAUSE THE STATE LAW COUNTERCLAIMS CANNOT BE DISMISSED

Without even addressing the effect of their unlawful activities, counterdefendants contend that Irwin's remaining state law counterclaims must be dismissed because, if the federal antitrust claims are dismissed, the Court will no longer have subject matter jurisdiction over the state law claims. The federal antitrust claims, however, cannot be dismissed on this motion. Numerous genuine issues of material fact remain and Irwin must be afforded meaningful discovery. Even were they dismissed, however, Irwin's state law claims arose out of the same transaction as counterdefendant's infringement claims and must be

tried in this action. Fed. R. Civ. P. 13.3 Rules 13(a) and 13(b) of the Federal Rules of Civil Procedure deal with two basic categories of counterclaims—compulsory and permissive. A counterclaim that arises out of the same transaction or occurrence that is the subject matter of the opposing party's claim is compulsory. It must be raised as a defense and it must be resolved in the same action. A litigant is required to assert its compulsory counterclaims to avoid wasteful multiplicity of litigation. Since both counterclaimants' infringement claims and Irwin's counterclaims arose out of the same transaction, it is in the interest of judicial economy to have them adjudicated by the same court. *Albright v. Gates*, 362 F.2d 928 (9th Cir. 1966).

A Rule 13(a) compulsory counterclaim falls within the ancillary jurisdiction of the court and does not require an independent basis of subject matter jurisdiction. *Hardy v. Nat'l Kinney of California, Inc.*, 565 F. Supp. 1027 (N.D. Cal. 1985); *Santa Clara v. Kleppe*, 428 F. Supp. 315 (N.D. Cal. 1976), *aff'd*, 572 F.2d 660 (9th Cir.), *cert. denied*, 439 U.S. 859 (1978). Once a federal court has jurisdiction over plaintiff's claim, it also has jurisdiction over any counterclaim that arises from the same transaction or occurrence, even though it might not have had jurisdiction had those claims been brought in a separate action. Once ancillary jurisdiction attaches, a court is not ousted of its power to hear the counterclaim by subsequent dismissal of the plaintiffs' claims, even by a decision on the merits. *See, e.g., Hamilton v. Firestone Tire & Rubber Co.*, 679 F.2d 143 (9th Cir. 1982). Hence, regardless how the federal claims are resolved, the Court retains jurisdiction over Irwin's state law claims.

CONCLUSION

For the foregoing reasons, Irwin respectfully submits that counterdefendants' motion for summary judgment

should be denied and discovery on the counterclaims should proceed promptly.

Respectfully submitted,

COLLIER, SHANNON, & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

By: Patrick J. Coyne

KELLY, HERLIHY & BANE
LAURA J. BARNES

Counsel for Counterclaimants,
Professional Real Estate
Investors, Inc., and Kenneth F.
Irwin

Dated: November 8, 1989

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV-83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

DECLARATION OF KENNETH F. IRWIN

KENNETH F. IRWIN declares and states as follows:

1. I am a director, shareholder, and officer of Professional Real Estate Investors, Inc. In addition, I am manager of La Mancha Private Club and Villas ("La Mancha") in Palm Springs, California.

2. We installed approximately \$20,000 in video disc player equipment at La Mancha. In addition, we have invested approximately \$15,000 in video discs. The video disc player equipment installed at La Mancha was purchased from RCA Corporation. La Mancha was, until 1988, an RCA representative with respect to the sale of video disc player equipment.

3. I had attempted to develop a market for the sale and installation of video disc player equipment to other hotels for private, in-room, movie viewing. As an RCA representative, I had contacted other hotels in an attempt to install video disc player equipment using the in-room video technology employed at our La Mancha facility. I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterde-

fendant movie studios. I believe further that larger chains, in particular, were reluctant to make a substantial investment in video technology absent a license from the movie studios.

4. Counterdefendants currently license Spectradyne to render performances of videos in hotel rooms. Based upon my experience at La Mancha, in-room video players offers the potential of a less costly and more profitable in-room performance alternative to a Spectradyne-type system. Hence, stand alone in-room video players would likely expand the market for in-room video performances relative to that available through a Spectradyne-tape system alone.

5. After the institution of this action, I attempted for more than a year, to obtain licenses from Counterdefendants to use and install in-room video systems in guest lodgings. None of the Counterdefendants would grant a license on reasonable terms.

6. We have been precluded from expanding our in-room video rental program to other hotels as a direct result of Counterdefendants' intimidation, threats of litigation, and refusal to license.

7. Technology in the video industry has continued to evolve. At the time we began our in-room video program at La Mancha, we were well positioned with respect to the market for in-room private video performances in lodgings. During the intervening years, developments in hotel industry have tended to foreclose some of the opportunities that were available with respect to the development of a market for stand alone, in-room video viewing. The trend in the hotel industry is currently to provide cable systems. Some hotel are reluctant to provide stand alone video viewing systems in addition to a cable system. Some of the opportunities that were available to use for the development of an in-room video market several years ago, therefore, have now been lost as a result of Counterdefendants' activities and cannot be recovered.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: _____
KENNETH F. IRWIN

**IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA**

Civil Action No. CV-83 2594 WPG

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Counterclaimant,

v.

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Counterdefendants

**DECLARATION OF PATRICK J. COYNE PURSUANT TO
FED. R. CIV. P. 56(f)**

PATRICK J. COYNE states as follows:

1. I am an attorney and am currently employed by Collier, Shannon & Scott, in Washington, D.C. I am counsel of record for counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively referred to as "Irwin").

2. Counterdefendants Columbia Pictures Industries, Inc., *et al.* (collectively referred to as "Counterdefendants"), in their motion for summary judgment, raise a number of factual issues. Among these, Counterdefendants assert that neither Irwin nor others in the video rental market could have been injured as a result of Counterdefendants' concerted refusal to license private video performances in hotels and other rental lodgings. The issue whether anyone has been injured as a result of Counterdefendants' conduct that is a fact question. Irwin has sought discovery from counterdefendants regarding the market for rental of videos for private performance in hotels. Counterdefendants,

however, have failed to produce any documents relating to that issue. Discovery likely will also be required from third parties on that issue. Consequently, Irwin is currently unable to present facts essential to justify their opposition to Counterdefendants' motion for summary judgment.

3. In addition, Counterdefendants allege that their intent in bringing and prosecuting this action is irrelevant. Although Counterdefendants' anticompetitive intent in bringing this action may be irrelevant, Irwin's counterclaims raise numerous related issues such as whether Counterdefendants' infringement claims against Irwin were a "sham". These fact issues include whether or not counterdefendants' conduct is part of a pattern or practice of anticompetitive conduct and whether or not Counterdefendants knew those claims were baseless at the time they brought them. Irwin has sought discovery on these issues. Counterdefendants, however, have refused to produce any information relating to these questions. Although the evidence of record establishes that Counterdefendants knew their claim was baseless when they brought it, Irwin is unable without the benefit of further discovery to present additional facts critical to their opposition to Counterdefendants' motion for summary judgment.

4. Counterdefendants have sought to restrict performances of their copyrighted works to home use only. These restrictions constitute misuse of Counterdefendants' copyrights, giving rise to liability under the federal and state antitrust laws and state unfair competition laws. Irwin has sought discovery concerning this misuse, yet, Counterdefendants have refused to provide any such information. Consequently, Irwin cannot present facts sufficient to justify their opposition to Counterdefendants' motion for summary judgment.

5. Counterdefendants have misused their copyrights by attempting to acquire and maintain a monopoly over the rental market for videos, particularly with respect to the

rental of videos for performance in lodging accommodations. Irwin has sought discovery into the activities undertaken by Counterdefendants to acquire or maintain that market power, and into Counterdefendants' knowledge and intent. Counterdefendants, however, have steadfastly refused to provide Irwin with discovery on these issues. Accordingly, because of Counterdefendants' refusal to cooperate in discovery, Irwin is unable to present facts essential to justify their opposition to Counterdefendants' motion for summary judgment.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: November 7, 1989 /s/ Patrick J. Coyne
PATRICK J. COYNE

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

COUNTERCLAIMANTS' STATEMENT OF GENUINE
ISSUES OF MATERIAL FACT

Hearing Date: December 18, 1989

Hearing Time: 10:00 a.m.

Pursuant to Local Rule 7.14.2 of the United States District Court for the Central District of California, Counterclaimants Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively referred to as "Irwin"), set forth the following statement of material facts as to which there exist a genuine issue. In view of the existence of the genuine issues of material fact identified in this memorandum, the Motion for Summary Judgment filed by Counterdefendants Columbia Pictures Industries, Inc., *et al.* ("counterdefendants"), in this action must be denied.

STATEMENT OF GENUINE ISSUES

The following issues and the reasons why they preclude counterdefendants' Motion for Summary Judgment are

more fully discussed in Irwin's Memorandum in Opposition to Counterdefendants' Motion for Summary Judgment.

Whether Noerr-Pennington Applies Raises Genuine Issues of Material Fact

1. Irwin contests counterdefendants' assertion that Irwin is basing its counterclaims upon the filing of a single lawsuit. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 3). Irwin has alleged that counterdefendants have engaged in an illegal pattern of activity, including filing and threatening to file other lawsuits. Irwin is already aware of at least one other threatened lawsuit and seeks discovery to ascertain other lawsuits counterdefendants have filed or threatened.

2. Irwin contests counterdefendants' allegation that the determination of a "baseless" claim is solely a question of law and that counterdefendants intent and/or knowledge are irrelevant. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 3). Whether a claim is "baseless," and ultimately a sham, requires an examination of the party's knowledge of the merits of its claim (or lack thereof), which is an issue of fact.

3. Irwin contests counterdefendants' assertion that the underlying claim was not "baseless." (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 4). Evidence presently available indicates that counterdefendants knew at the inception of the copyright infringement claim that it was without merit. For example, counterdefendants knew that the lodging facilities at Irwin's facility are non-public places because they had admitted in earlier litigation that hotel rooms are not open to the public and that performance of a video in a hotel room would not constitute public performance. Further, counterdefendants knew that, in enacting the Copyright Act, Congress expressly recognized that hotel accommodations are private, not public, places. Congress has repeatedly rejected counterdefendants' attempts to expand

their performance rights in videos in a manner that would cover all rentals, including rentals for private viewing in hotel rooms. Thus, the issue of counterdefendants' knowledge that their claims were "baseless," is squarely in issue.

4. Even if the Court determines that the copyright infringement action was not "baseless" in that it presented a non-frivolous, colorable claim, counterdefendants are not entitled to summary judgment as a matter of law. An examination of the party's subjective intent and knowledge in instituting the lawsuit—whether the litigant wished to obtain its anticompetitive end through court-ordered relief or simply through the filing of the lawsuit—is imperative under the *Noerr-Pennington* doctrine. A litigant must have both an honest and reasonable belief that a claim is meritorious. Evidence presently available indicates that counterdefendants knew their copyright infringement claim was without merit. See ¶ 3, *supra*. At the very least, genuine issues of material fact exist as to counterdefendants' true intent and knowledge when instituting the copyright infringement action. Discovery, which counterdefendants have totally denied Irwin, is required.

Plaintiffs Are Not Entitled to Summary Judgment for Their Concerted Refusal to License Irwin

5. Irwin contests counterdefendants' assertion that their concerted refusal to deal cannot be judged under a *per se* analysis. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 5). Traditionally, concerted refusals to deal (group boycotts) have been held *per se* unlawful.

6. Nonetheless, even under the rule of reason, the factfinder must weigh all the circumstances of the case in determining whether a restrictive practice imposes an unreasonable restraint on competition. Summary judgment is rarely appropriate in an antitrust case especially where, as here, a party has been denied access to any meaningful discovery in order to develop the necessary facts. Irwin,

therefore, contests counterdefendants' allegation that summary judgment is proper under the rule of reason.

7. Irwin also contests counterdefendants' assertion that their concerted refusal to license Irwin could not have restrained trade because Irwin ultimately prevailed on counterdefendants' infringement claims. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 10). Counterdefendants contend that the market was free to rent videodiscs to hotel guests for viewing in their hotel rooms without licenses. This argument assumes that Irwin and other hotel operators knew that licenses were not required. If so, there could have been no reasonable basis for the copyright infringement action and it was a sham. The belief of persons in the industry as to the merits of counterdefendants' action, and whether they simply wishes to avoid the costs of litigation apart from any perceived risk of liability, are questions of fact.

8. Genuine issues of material fact also remain as to whether counterdefendants' concerted refusal to deal has restrained competition. Injury is an issue of fact and requires resolution of, at least, the following questions: (1) the extent to which Irwin was restrained from marketing their system because of the concerted refusal to deal; (2) the potential market for Irwin's system; (3) the extent to which counterdefendants' actions induced hotel operators to decline to purchase Irwin's system; (4) the extent to which others would have developed like systems to compete with counterdefendants' only licensed operator, Spectradyne; etc. If more hotels had acquired and implemented in-room video viewing systems, competition in the video industry would have been enhanced substantially. Discovery is necessary to develop these key factual issues and, in view of counterdefendants refusal to provide that discovery, summary judgment is improper.

9. Irwin similarly contests counterdefendants' assertion that its concerted refusal to license Irwin could not have

violated Section 2 of the Sherman Act. (Counterdefendants' Statement of Uncontroverted Facts and Conclusions of Law at ¶ 13). What effects have resulted from counterdefendants' concerted refusal to deal is a factual issue which requires full and meaningful discovery, which Irwin has not yet been allowed. See ¶ 8, *supra*.

10. Irwin contests counterdefendants' assertion that Irwin has not suffered antitrust injury. Counterdefendants impermissibly assume that Irwin, and all persons to whom Irwin attempted to market their in-room viewing system, knew that the underlying copyright infringement action was a sham. Injury is a question of fact. Material issues of fact remain as to: (1) the extent to which Irwin was restrained from marketing their system because of the concerted refusal to deal; and (2) the potential market for Irwin's system, absent counterdefendants' concerted refusal to deal. Meaningful discovery is required to determine the extent of the antitrust injury to Irwin.

Issues Relating to Other Anticompetitive Activities

11. Numerous genuine issues of material fact exist as to the other anticompetitive activities in which counterdefendants have engaged. In addition to this and other baseless infringement suits and counterdefendants' refusal to license, Irwin understands that individually, and in concert with others: (1) counterdefendants restrict distributors of videotapes from selling to businesses that intend to rent; (2) counterdefendants have threatened other similar lawsuits to thwart the development of the video alternate; (3) counterdefendants misused their copyrights by employing threatening notices on videos; (4) counterdefendants, through their trade associations, used other threatening actions such as placing advertisements in hotel trade journals warning hotels against "stealing"; and (5) counterdefendants may also discriminate among their licensees, perhaps to punish distributors that sell to businesses that rent videos for private viewing. These activities have likely

injured competition in the video industry. Meaningful discovery is required.

The State Law Claims Should Not be Dismissed

12. Irwin contests counterdefendants' allegation that the state law claims must be dismissed if the federal antitrust claims are dismissed. (Counterdefendants' Statement of Uncontroverted Fact and Conclusions of Law at ¶ 17). Irwin's state law counterclaims are compulsory because they arose out of the same transaction as counterdefendants' infringement claim. Thus, even if the federal antitrust claims are dismissed, and they should not be, the state law claims must be tried in this action. Fed. R. Civ. P. 13.

Respectfully submitted,

COLLIER, SHANNON & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

By: /s/ Patrick J. Coyne

KELLY, HERLIHY & BANE
LAURA J. BARNES

Counsel for Counterclaimants,
Professional Real Estate Investors, Inc.,
and Kenneth F. Irwin

Dated: November 13, 1989

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

—
No. 83-2594 WPG
—

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

REPLY MEMORANDUM OF POINTS AND AUTHORITIES
SUBMITTED BY PLAINTIFFS IN SUPPORT OF THEIR
MOTION FOR SUMMARY JUDGMENT AS TO FIRST,
SECOND AND THIRD COUNTERCLAIMS AND FOR
DISMISSAL OF REMAINING PENDENT CLAIMS

December 18, 1989

10:00 a.m.

[Table of Contents omitted in this printing]

I.

INTRODUCTION

Counterclaimants Professional Real Estate Investors, Inc. *et al.* (hereinafter "La Mancha") oppose the plaintiffs' motion for summary judgment on the following general grounds: (i) the underlying copyright infringement action here was a "sham" not entitled to immunity under the *Noerr-Pennington* doctrine because plaintiffs allegedly

prosecuted the action knowing it to be without merit and because plaintiffs allegedly brought the underlying copyright infringement action as part of a pattern of other baseless lawsuits; (ii) La Mancha has allegedly suffered "antitrust injury" because of its inability to sell video hardware to other hotels which refused to institute in-room video systems purportedly because of alleged threats of litigation by plaintiffs; and (iii) plaintiffs have purportedly denied La Mancha discovery to which it is entitled, thus warranting denial of the motion for summary judgment.

As will hereinafter be demonstrated, none of these contentions has merit. Plaintiffs' prosecution of the underlying copyright infringement action here was constitutionally protected under the *Noerr-Pennington* doctrine, and La Mancha raises no material factual issue in support of its contention that the action was a "sham" [see Part II, *infra*]. Moreover, La Mancha has utterly failed to rebut plaintiffs' showing that plaintiffs' alleged withholding of video license rights—which the Ninth Circuit has ruled La Mancha has had all along—neither had anticompetitive effects nor caused La Mancha to suffer antitrust injury [see Part III, *infra*]. Finally, there is no basis whatever to support La Mancha's contention that the court should deny the plaintiff's motion for summary judgment because of any refusal by plaintiffs to accord La Mancha discovery to which it is entitled [see Part IV, *infra*].

The court should grant plaintiffs' motion for summary judgment directed at La Mancha's antitrust counterclaims, and having done so, the court should dismiss La Mancha's pendent claims under state law as well [see Part V, *infra*].

II.

AS A MATTER OF LAW, THE COMPLAINT IN THE UNDERLYING ACTION WAS NOT "BASELESS," AND FOR THAT REASON, LA MANCHA CANNOT INVOKE THE "SHAM" EXCEPTION TO THE NOERR-PENNINGTON DOCTRINE.

La Mancha's counterclaim seeks damages under the antitrust laws by reason of plaintiffs' unsuccessful prosecution of their copyright infringement claim herein [Counterclaim ¶35; ¶39 and ¶45]. Plaintiffs have moved for summary judgment on the ground that prosecution of the underlying lawsuit here is immune from liability under the *Noerr-Pennington* doctrine. However, La Mancha contends that the copyright infringement claim was "sham" (and thus not entitled to protection under *Noerr-Pennington*) on two grounds. First, La Mancha alleges that plaintiffs filed and prosecuted the copyright infringement action knowing it to be without merit [La Mancha Memorandum at 11]. Second, although the counterclaim expressly alleges that plaintiffs violated the antitrust laws by "the filing of *this suit*, . . . [and] bad faith prosecution of *this suit*; . . ." [Counterclaim ¶34; ¶39; and ¶45], La Mancha now contends that it is really complaining about a "pattern of instituting or threatening to institute lawsuits" rather than the filing of a single lawsuit as pleaded in its counterclaim [*id.* at page 6].¹ Neither theory of liability advanced by La Mancha is supported by any evidence which would raise a genuine issue of material fact as to whether the prosecution of the underlying copyright infringement claim was a "sham."

¹ The extensive differences between the charges of the counterclaim as pleaded and La Mancha's characterization of its claims in opposing the motion for summary judgment are discussed more fully in Part III.A, *infra*.

A. The question of whether the underlying copyright infringement action was "baseless" presents a question of law, and plaintiffs' subjective intent is irrelevant to its resolution.

La Mancha seeks to raise a genuine issue of fact with respect to whether the underlying copyright infringement claim here was a "sham" by arguing that plaintiffs filed and prosecuted the action knowing that it was without merit [La Mancha Memorandum at 11-14]. This contention is not only factually unsupported,² it is premised upon an incorrect view of the law. As plaintiffs' moving papers demonstrated, the question of whether the underlying copyright infringement action was "baseless" presents a pure question of law to be resolved by an objective analysis of the merits of the claims asserted in that action. Evidence concerning plaintiffs' subjective motivation for bringing the underlying action or their subjective belief about the merits of their copyright claims is irrelevant to a consideration of whether those claims were baseless and thus potentially "sham."

La Mancha cites the Fifth Circuit's opinion in *In re Burlington Northern, Inc.*, 822 F.2d 518 (5th Cir. 1987) for the proposition that an antitrust defendant's subjective intent in prosecuting prior litigation is relevant in determining whether the prior litigation was a "sham." Significantly, La Mancha cites no Ninth Circuit authority for this proposition and further neglects to note that *Burlington Northern* has been severely criticized by respected antitrust commentators.

Professors Areeda and Hovenkamp have warned of the risks of adopting the subjective intent standard advocated by the *Burlington Northern* court:

Once we understand that a sham is the improper invocation of governmental machinery in

² See Part II.B., *infra*.

order to injure a rival by the invocation itself and without expectation of obtaining a favorable governmental decision, we must consider whether that "expectation" is to be assessed subjectively, according to the particular actor's state of mind, or objectively, according to the expectation of a reasonable person. *We are not persuaded by the arguments for a subjective standard*, which could condemn either more or less than an objective standard. . . .

[T]he inquiry into subjective intent is hazardous and of doubtful utility in most cases. . . .

The subjective standard would condemn more [than would an objective standard] where the antitrust defendant had a reasonable claim in the other forum but did not subjectively know it. Doubt about the wisdom of punishing such a person is reinforced by the difficulty of properly proving subjective intent in the first place. It is often a jumble of mixed impulses, even if we succeed in identifying the particular human being(s) whose intention is relevant. Areeda & Hovenkamp, *Antitrust Law* at 19-20 (1989 Supp.) (emphasis supplied).³

Were the court to accept La Mancha's contention that the "baselessness" of the prior litigation may be determined by reference to evidence of the party's subjective intent in bringing the suit, rather than through an objective analysis of the merits of the earlier claims, unsuccessful litigants would find themselves routinely defending claims of antitrust wrongdoing and responding to burden-

³ The *Burlington Northern* court itself observed that its approach of relying on a litigant's subjective intent in determining whether prior litigation was a sham has not been universally accepted. 822 F.2d at 529, n.8.

some discovery requests propounded in the hope of showing that their motivation in pursuing earlier litigation was somehow "improper." The potential risk of having to defend a subsequent lawsuit and the attendant need to respond to aggressive (and costly) discovery tactics would undeniably discourage the filing of meritorious lawsuits. To avoid the impermissible chilling effect which application of such a "subjective intent" standard would inevitably have on the First Amendment right of access to the courts, the Ninth Circuit requires that a two-prong test be satisfied before a single lawsuit may be deemed a "sham" possibly giving rise to antitrust liability:

When the antitrust plaintiff challenges one suit and not a pattern, a finding of sham requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit and that are themselves anti-competitive. *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984).

In arguing that the underlying copyright infringement claim here was "baseless," La Mancha relies exclusively upon the contention that plaintiffs subjectively "knew" the underlying suit was without merit [La Mancha Memorandum at pages 11-14]. While conceding that this court expressly found that the plaintiffs' copyright infringement claim raised "very close" issues of first impression [*id.* at 11], La Mancha makes no attempt to show how such a suit raising such "very close" issues could ever be "baseless" in the sense of being a sham. La Mancha instead asks the court to accept the existence of a theoretical impossibility, to wit, a case raising "very close" legal issues of first impression which the plaintiff nonetheless somehow "knows" is without merit. Because the issues raised by the underlying copyright infringement claim were not "baseless," the suit by definition cannot have been brought for an improper purpose and evidence regarding

plaintiffs' subjective belief about the merits of the suit is thus irrelevant.

In the context of determining whether a complaint is "baseless" and deserving of sanctions under Rule 11,⁴ it is clear that the inquiry is purely objective without regard to subjective evidence concerning the plaintiffs' purposes in pursuing the litigation. *Townsend v. Holman-Consulting Corp.*, 881 F.2d 788, 792-93 (9th Cir. 1989).

[W]here a complaint is at issue, the improper purpose analysis is not applicable because a non-frivolous complaint cannot be filed for an improper purpose. *Jensen Electric Company v. Moore, Caldwell, Rowland & Dodd, Inc.*, 873 F.2d 1327, 1329 (9th Cir. 1989).

Consequently, a non-frivolous suit having some merit can never be deemed "baseless," even if there is subjective evidence that the plaintiff pursued it for the wrong reasons. Under Rule 11, "a complaint that is well-grounded in fact and law cannot be sanctioned regardless of counsel's subjective intent." *Rachel v. Banana Republic, Inc.*, 831 F.2d 1503, 1508 (9th Cir. 1987). A complaint which unsuccessfully asserts a claim for relief cannot be the basis

⁴ La Mancha quibbles with plaintiffs' analogy to Rule 11 for guidance as to what constitutes "baseless" litigation [La Mancha Memorandum at 10, n. 1]. While it is true that Rule 11 and the "sham" exception to *Noerr-Pennington* serve different interests, La Mancha offers no reason why the Ninth Circuit's discussion of what constitutes "baseless" litigation under Rule 11 is not at least helpful in determining what is "baseless" under *Noerr-Pennington*. Since the Ninth Circuit has used the identical word—to wit, "baseless"—to describe a sham lawsuit under *Noerr-Pennington* [*Omni Resource*] as well as to describe litigation deserving of sanctions under Rule 11 [*Townsend v. Holman Consulting Corp.*, 881 F.2d 788, 792 (9th Cir. 1989) ("the notion of 'frivolousness' for purposes of Rule 11 has been limited to situations where a pleading is manifestly 'baseless' or 'lacking in plausibility'")], the Rule 11 cases surely provide a useful starting point for exploring the contours of this concept.

of an award for sanctions if a "plausible, good faith argument" for a position contrary to the result reached can be made by a competent attorney. *Zaldivar v. City of Los Angeles*, 780 F.2d 823, 833 (9th Cir. 1986).

La Mancha cites *Rickards v. Canine Eye Registration Foundation*, 783 F.2d 1329 (9th Cir. 1986) ("*Rickards II*") as support for the proposition that bringing a single lawsuit "with knowledge that it lacks merit is sufficient to give rise to antitrust liability" [La Mancha Memorandum at 10]. In fact, however, the antitrust defendants' purported knowledge of the lack of merit in the claims asserted in the prior litigation was not even mentioned as a factor in *Rickards II* to support the court's conclusion that the prior litigation was "baseless." Rather, a reading of *Rickards II*, together with the court's earlier opinion in *Rickards v. Canine Eye Registration Foundation*, 704 F.2d 144 (9th Cir. 1983) ("*Rickards I*"), indicates that antitrust liability was imposed on the unsuccessful litigants there because the prior litigation was objectively "baseless."

The complaint in *Rickards I* asserted claims under Sherman Act §1 which were contrary to well-established principles of law. Proof of a violation of Sherman Act §1 requires a showing of concerted action in restraint of trade; yet the record in *Rickards I* demonstrated that the conduct challenged there was unilaterally carried out and thus clearly beyond the reach of Section 1 as a matter of law. *Rickards I*, 704 F.2d at 1453. The *Rickards I* court also found that the plaintiffs were in essence challenging a type of exclusive dealership arrangement; but the court observed "that 'there is a veritable avalanche of precedent'" holding that such arrangements are not unlawful under the antitrust laws. *Rickards I*, 704 F.2d at 1454.⁵

⁵ The "veritable avalanche of precedent" faced by plaintiffs in *Rickards I* stands in marked contrast to the underlying copyright infringement claims here which raised legal issues of first impression which this court noted were "very close."

The claims in the underlying litigation in *Rickards I* were not only contrary to settled legal principles but were factually unsupported as well. The Ninth Circuit noted that "appellants' price-fixing claim similarly is left unsubstantiated by the record" [*Rickards I*, 704 F.2d at 1454] and that "appellants' tie-in theory must likewise be rejected" [*id.*] because there was no evidence that the seller of the tying product had any economic interest in the tied product [*id.* at 1455]. The Section 2 claims in *Rickards I* fared no better, because "the conduct complained of was procompetitive and not anticompetitive." *Rickards I*, 704 F.2d at 1455. The *Rickards I* court thus concluded that "the dismissal of all the antitrust claims was clearly warranted."⁶ *Id.* The paucity of evidence supporting the plaintiffs' antitrust claims in *Rickards* extended to their state law claims, too, which were dismissed, *inter alia*, because plaintiffs failed "to present competent evidence to prove damages." *Rickards I*, 704 F.2d at 1457.

It is thus plain that the *Rickards II* court's conclusion that the underlying litigation in *Rickards I* was "baseless" was fully justified under an objective standard. The plaintiffs in the underlying litigation in *Rickards* did not fail because the court had rejected their position on legal issues of first impression which were "very close." Rather, the rejection of these claims was "clearly warranted" by an "avalanche of precedent" and a paucity of evidence [*Rickards I*, 703 F.2d at 1454-1455]. Indeed, the *Rickards II* court gives no hint that the plaintiffs' subjective intent in prosecuting the prior action played any part in its finding that the underlying litigation was "baseless."

In sum, subjective evidence of intent which motivated the prosecution of underlying litigation is not material in determining whether the first prong of the *Omni Resource* test—a finding that the underlying litigation was "base-

⁶ See footnote 5, *supra*, and accompanying text.

less"—is met. Unlike the claims in *Rickards I*, the underlying litigation here was not "baseless" under an objective test. Since the lawsuit here was not objectively "baseless," the court need not consider, as the *Rickards II* court did, the extent to which it was accompanied by external anticompetitive acts or effects sufficient to satisfy the second prong of the *Omni Resource* test.⁷

B. Plaintiffs did not "know"—indeed, they could not have "known"—that the performances at La Mancha were non-infringing.

La Mancha contends that plaintiffs knew, when they filed their copyright infringement complaint, that the performances at La Mancha were non-infringing and that plaintiffs have on several occasions admitted to having such knowledge. According to La Mancha, this purported knowledge demonstrates that plaintiffs brought this action with the subjective intention of restraining competition (La Mancha Memorandum at 14). As noted above, however, plaintiffs' subjective intent, and hence their "knowledge" regarding the merit of their claims, is irrelevant to the issue whether these claims were "sham" under the *Omni Resource* test. Moreover, even if plaintiffs' subjective intent were somehow deemed relevant, there is no support whatsoever for La Mancha's unfounded argument that plaintiffs "knew," when they filed their copyright infringement action, that the action lacked merit.

The first flaw in La Mancha's argument is its inconsistency with the uncontested fact that plaintiffs' complaint—even though ultimately unsuccessful—presented a non-frivolous, colorable claim. As noted above, in ruling on the

⁷ Moreover, as noted by plaintiffs in their moving papers [see Plaintiffs' Memorandum of Points and Authorities at 14, n. 7] and as further demonstrated herein [see Part III, *infra*] La Mancha would be unable to satisfy the second prong of the *Omni Resource* test as well because the conduct external to the lawsuit cited by La Mancha has not had anticompetitive effects.

parties' cross motions for summary judgment, this Court expressly found that plaintiffs' claims raised a "very close" issue of first impression. Plaintiffs obviously could not have "known" the outcome of this hotly contested issue before the Court decided the issue, much less before plaintiffs commenced the litigation. Indeed, it is self-evident that the outcome of such a close issue of first impression can never be "known" until the conclusion of the litigation. For this reason alone, there is no basis whatever for La Mancha's contention that plaintiffs "knew" when they filed this action that their copyright claims were invalid.

Nor did plaintiffs ever "admit," as La Mancha claims, that performances in hotel rooms are private, not public.⁸ To support their contrary contention, La Mancha first states that two years after alleging in this action that the performances at La Mancha's resort hotel are public, plaintiffs "admitted in *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F.Supp. 315 (M.D. Pa. 1985) [*"Aveco"*] that hotel rooms, dormitory rooms, and apartments 'are not open to the public. . . ' " [La Mancha Memorandum at

⁸ It is important to note that even if plaintiffs had admitted that hotel rooms are public—not private—places, this would not have rendered baseless plaintiffs' copyright infringement claims. As the Ninth Circuit explained in affirming this Court's summary judgment on plaintiffs' copyright claims, a performance may be classified as public under either of two numbered clauses contained in the statutory definition of "to perform publicly." 866 F.2d at 280; 17 U.S.C. §101 (definition of "to perform . . . publicly"). A performance is public under Clause (1) (which the Ninth Circuit called the "public place clause"—866 F.2d at 280) if it occurs in "a place open to the public." A performance is public under Clause (2) (which the Ninth Circuit called the "transmit clause"—866 F.2d at 281) if it is transmitted or otherwise communicated "to the public," regardless of whether the transmissions or communications are received in public places. The question whether a hotel room is public, rather than private, is relevant only to Clause (1), the "public place clause." This question, however, is irrelevant to, and hence does not dispose of, plaintiffs' claim that La Mancha's activities also violated Clause (2), the "transmit clause."

12], thereby undercutting the entire basis for *this* action. The sole support offered by defendants for this assertion is the cursory response which plaintiffs made in their *Aveco* Reply Brief to a series of inconsequential hypotheticals which were posed by the *Aveco* defendants in opposition to plaintiffs' summary judgment motion in *Aveco*.⁹ La Mancha's claim of "sham" litigation based on this slim foundation is erroneous.

Hotels were not even in issue in *Aveco*. Defendants in that cause operated a retail video store—not a hotel. The reference to a "motel" in the *Aveco* defendants' summary judgment brief was entirely hypothetical, bore no relation to the issues before the Court and neither required nor received any serious consideration by either the Court or plaintiffs. It is simply unreasonable to infer from plaintiffs' cursory response to the irrelevant reference to a "motel" in the *Aveco* defendants' Brief that plaintiffs "knew" two years earlier, when they filed this action, that their claims against La Mancha were meritless—particularly since the issues in *Aveco* did not require plaintiffs to take any position regarding hotels.

La Mancha next argues that the legislative history of the Copyright Act of 1976 ("1976 Act") demonstrates that plaintiffs "knew" that their copyright claims against La Mancha were invalid. [La Mancha Memorandum at 13.] To support this argument, La Mancha states that, during the legislative process leading to enactment of the 1976 Act, the Register of Copyrights rejected attempts by plaintiffs to extend a copyright owner's exclusive performance rights to "rentals for private viewing in hotel rooms." (*Id.*) This statement is simply not true. The legislative history makes no mention whatsoever of any attempt by plaintiffs to preclude video rentals for viewing in hotel rooms, much

⁹ Copies of the relevant portions of these opposition and reply briefs, as previously submitted by La Mancha to this Court, are attached hereto as Exhibits A and B.

less of any rejection by the Register of such an attempt. The debate between plaintiffs and the Register centered exclusively over the advisability of extending a copyright owner's performance rights to private performances *in the home*. See Report of the Register of Copyrights on the General Revision Of The U.S. Copyright Law at 23-29, 87th Cong., 1st Sess. (Comm. Print 1961) ("Register's 1961 Report").¹⁰ Both the Register and Congress did, as La Mancha states, reject plaintiffs' requests to extend a copyright owner's exclusive performance right to private home performances. But this hardly constitutes a rejection of plaintiffs' contention in this lawsuit that hotel rooms are public, not private, places and that performances in hotel rooms therefore constitute public performances.

La Mancha next contends that Congress conclusively stated in Section 111(a)(1) of the 1976 Act (and in that section's legislative history) that hotel rooms are private, not public, places for purposes of Clause (1) of the statutory definition of "to perform . . . publicly." [La Mancha Memorandum at 13].¹¹ This argument is also erroneous.

Section 111(a)(1) provides an exemption solely for performances which are public under Clause (2), not Clause (1). In particular, section 111(a)(1) exempts from liability secondary transmissions (i.e., retransmissions) of local broadcast signals which, in the absence of the exemptions, would constitute infringing public performances only under Clause (2)—not under Clause (1). The exemption applies solely to "transmissions," which are mentioned only in Clause (2). Since section 111(a)(1) has nothing to do with Clause (1), it is completely illogical to assume that Congress intended to provide in section 111(a)(1) that hotel rooms are, or are not, "places open to the public" under

¹⁰ Copies of the relevant pages from the Register's 1961 Report are attached hereto as Exhibit C.

¹¹ See note 8, *supra*.

Clause (1).¹² The only logical, and hence permissible, interpretation is that Congress used the phrase "private lodgings" in section 111(a)(1) (and in the section's legislative history) merely to describe areas of a hotel to which Clause (2) retransmissions would be exempt, not to provide that hotel rooms must be treated as private places under Clause (1). Indeed, the fact that this Court found the issue "very close"—and did not even cite, much less rely upon, section 111(a)(1) in its Findings of Fact and Conclusions of Law—itself demonstrates the fallacy of La Mancha's argument that section 111(a)(1) conclusively settles that hotel rooms are private, not public, places for purposes of Clause (1).¹³

La Mancha's final argument regarding plaintiff's purported "knowledge" centers around plaintiffs' attempts in 1983 to persuade Congress to amend the "first sale doctrine" found in 17 U.S.C. § 109(a) [La Mancha memorandum at 13-14]. La Mancha irresponsibly states that this attempt to amend the Copyright Act was directed specifically at, among other things, "rentals for . . . private viewing in hotel rooms." (*id.*). This is simply not true. The amendment proposed by plaintiffs in 1983 would merely have permitted motion picture copyright owners to share in revenues from retail rentals of their motion pictures. See S.33, 98th Cong., 1st Sess. (1983); Statement of a Panel Consisting of Jack Valenti, President, Motion Picture Association of America, et al. (April 29, 1983), *re-*

¹² See *Pac. Mut. Life Ins. Co. v. Amer. Guar. Life Ins. Co.*, 722 F.2d 1498, 1500 (9th Cir. 1984) (statutory interpretation may not defy common sense); *Ruiz v. Morton*, 462 F.2d 818, 820 (9th Cir. 1972) (in interpreting a statute, Court may not assume that Congress engaged in superfluous act); *Rockbridge v. Lincoln*, 449 F.2d 567, 571 (9th Cir. 1971) (same).

¹³ It should also be noted that section 111(a)(1) exempts transmissions to hotel rooms *only* when no direct charge is made to the occupants of the hotel rooms. Here, in contrast, La Mancha made a direct charge to its guests for the right to view plaintiffs' motion pictures in their rooms.

printed in *Hearing before the Subcommittee on Patents, Copyrights and Trademarks of the Committee on the Judiciary of the United States Senate on S.32 and S.33 (Comm. Print. 1983)*.¹⁴ The amendment had nothing to do with hotels. Nor, as La Mancha also suggests [La Mancha memorandum at 14], did plaintiffs—either in this lawsuit or in proposing their amendment to the first sale doctrine—ever content that “rentals of videos for private viewing” are not permitted under the first sale doctrine. In short, plaintiffs’ attempt in 1983 to amend the first sale doctrine had nothing at all to do with the issue in this case, i.e., whether performances in publicly available hotel guest rooms constitute public, rather than private, performances.

Consequently, even if evidence that plaintiffs subjectively “knew” that their copyright infringement claims lacked merit were relevant to the inquiry as to whether the underlying litigation was “baseless,” it is plain that there is no such evidence here. The motion for summary judgment cannot be denied on this ground.

C. The underlying litigation was not part of a “pattern of baseless claims.”

Typically the “sham” exception to the *Noerr-Pennington* doctrine is not invoked in the case of the prosecution of a single unsuccessful lawsuit. Rather, it is normally limited to the situation where an antitrust defendant files a series of baseless suits without regard to the merits of any particular claim. See *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 515, 92 S.Ct. 609, 32 L.Ed.2d 642 (1972) (involving repeated opposition to competitors’ applications for operating rights to haul goods, claims

¹⁴ S.31 and S.175, relied upon by La Mancha [La Mancha Memorandum at 13], did not at all pertain to the first sale doctrine. Those bills related solely to the unrelated issue of off-the-air recording of television programming for home use. See *Sony Corporation of America, Inc. v. Universal City Studios, Inc.*, 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984).

which effectively denied the competitors access to the tribunal from whom the rights were sought); *Otter Tail Power Co. v. United States*, 410 U.S. 366, 380, 93 S.Ct. 1022, 35 L.Ed.2d 359 (1973) (involving private power company’s repeated institution of litigation designed to prevent issuance of municipal bonds to be used in financing competitive municipal power system). The case at bar bears no resemblance to the types of litigation abuses condemned in *California Motor Transport* or *Otter Tail*.

First, La Mancha does not even *allege* in its counterclaim that plaintiffs engaged in a pattern of baseless litigation. Rather, La Mancha alleges only that the filing and prosecution of *this single lawsuit* was a “sham” (e.g., Counterclaim ¶34).

Second, there is no evidence before the court of any pattern of repeated, baseless claims raising similar issues. The vague references by La Mancha to other litigation¹⁵ are not *evidence* of a “pattern of baseless claims.” Although La Mancha argues that it is “aware of one other such threatened lawsuit,” it does not favor the court with any specifics regarding the other suit, such as the identity of the parties, the nature of the claims asserted or its outcome.¹⁶

¹⁵ La Mancha makes the following argument which is not only bereft of factual support but which also directly contradicts the allegations of its counterclaim: “Irwin has alleged that counterdefendants have engaged in an illegal pattern of activity. This pattern includes filing or threatening to file other lawsuits. Irwin is already aware of at least one other such threatened lawsuit.” [La Mancha Memorandum at 14, lines 20-23].

¹⁶ Moreover, plaintiffs have found no case which holds that the filing of only two lawsuits constitutes a “pattern of baseless claims,” where each lawsuit seeks to clarify a single issue of statutory interpretation or first impression. In *California Motor Transport*, by contrast, the defendants had repeatedly instituted litigation in Pavlovian response to attempted competition for the alleged purpose of “bar[ring] their competitors from meaningful access to adjudicatory tribunals and in so usurp that decisionmaking process” [404 U.S. at 512].

La Mancha has not *pleaded* the existence of a pattern of repeated baseless claims. Nor has it come forward with any *evidence* to show that plaintiffs engaged in such a practice. La Mancha is thus relegated to satisfying the two-part *Omni Resource* test for showing that a *single lawsuit* might be a "sham." Having failed to satisfy the objective first *Omni Resource* criterion—i.e., a showing that the underlying litigation was "baseless"—La Mancha has failed in its attempt to characterize the copyright infringement action here as a "sham" to exclude it from *Noerr-Pennington* protection. The underlying litigation complained of by La Mancha is constitutionally protected under *Noerr-Pennington* and cannot be the basis of antitrust liability.

D. Threats to bring litigation and attendant publicity thereto are protected under *Noerr-Pennington*.

Although such a claim is not pleaded in La Mancha's counterclaims, La Mancha argues in opposition to this motion for summary judgment that plaintiffs violated the antitrust laws not only by filing this litigation but also by threatening to bring similar litigation against other hotels [La Mancha Memorandum at 3, 6, 15].

The first flaw in such a claim is that La Mancha has presented no *evidence* to support it. Not a single example of such publicity or "threats" is attached to La Mancha's opposition papers. Nor has La Mancha presented any affidavits from third party hotel operators stating that they were inhibited by any such publicity or "threats" from doing *anything*.¹⁷

Moreover, even if La Mancha had presented such evidence, it would be insufficient as a matter of law to overcome plaintiffs' First Amendment rights to publicize their

¹⁷ As noted below [see Part III.B., *infra*], the declaration of defendant Irwin constitutes pure speculation and, hence, does not suffice to support La Mancha's claimed loss of third party sales.

intention to protect their rights through litigation. If prosecution of a lawsuit itself is protected under *Noerr-Pennington*, no liability can attach to threats to bring similarly-protected litigation.

If resort to the courts is protected by *Noerr-Pennington*, then threats to do so, without more, are likewise immune from liability. *Aircapital Cablevision, Inc. v. Starlink Communications Group, Inc.*, 634 F.Supp. 316, 326 (D. Kan. 1986).

This principle is especially applicable to protect "threats to litigate issues that are not well-settled" like those involved in the copyright infringement action here. *Consortium, Inc. v. Knoxville International Energy Exposition*, 563 F.Supp. 56, 60 (E.D.Tenn. 1983).

Publicity by plaintiffs in trade publications that they intended to protect their perceived copyright interests [La Mancha Memorandum at page 3] is also protected.

Likewise, in the case at bar the underlying litigation was not "sham"; therefore, the attendant publicity is protected by *Noerr-Pennington*. *Aircapital, supra*, 634 F.Supp. at 326.

Consequently, La Mancha's belated contention that plaintiffs publicized this suit and threatened similar suits against other hotels is, as a matter of law, insufficient to support a claim of antitrust wrongdoing. Even if La Mancha had evidence to show that such publicity and threats occurred, such activities constitute the exercise of constitutionally-protected rights under *Noerr-Pennington* and cannot form the basis of antitrust liability.

III.

LA MANCHA HAS ADDUCED NO EVIDENCE WHICH WOULD SHOW THAT ANY REFUSAL BY PLAINTIFFS TO LICENSE VIDEOCASSETTE RIGHTS TO LA MANCHA HAS UNREASONABLY RESTRAINED TRADE OR CAUSED ANTITRUST INJURY TO LA MANCHA.

A. La Mancha may not avoid summary judgment by reference to unpleaded claims purporting to show a restraint on trade.

La Mancha complains that plaintiffs, when moving for summary judgment, make an argument which "mischaracterizes Irwin's claims" [La Mancha Memorandum at page 2]. In evaluating this assertion, the Court should be mindful that La Mancha, without seeking leave of court or following other appropriate procedures to place plaintiffs on notice of the altered nature of its claims, has dramatically re-couched its claims of wrongdoing in order to oppose this motion for summary judgment. It is thus not surprising that when La Mancha summarizes the allegations of anticompetitive activity which supposedly form the basis of its antitrust counterclaims [La Mancha Memorandum at page 3], it does not cite to any specific portions of its counterclaim in which such charges are made.

In its antitrust counterclaims, La Mancha specified only three types of conduct which it contended constitute antitrust violations: "[i] the filing of this suit which is a sham and false and known by plaintiffs to be so; [ii] bad faith prosecution of this suit; [iii] boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs" [Counterclaim ¶34; ¶39 and ¶45]. La Mancha also referred to other unspecified "activities to . . . monopolize . . . trade . . . and to destroy counterclaimants' business" [e.g., Counterclaim ¶34]. However, the counterclaim gives no hint as to the nature of the wrongdoing being charged through these vague allegations. Thus, for example, La Mancha gave no notice to plaintiffs in its pleading that it

is making a claim against plaintiffs' for "placing threatening advertisements in hotel trade journals" [La Mancha Memorandum at page 3, lines 15-17] or "discriminating among licensees by charging different license fees to different distributors, possibly to punish distributors who sell to businesses that rent videos" [d. at lines 18-20]. Nor does La Mancha expressly or impliedly suggest in its pleading that it has been damaged because plaintiffs interfered with La Mancha's ability to venture into other activities such as selling video hardware to other hotels [Cf. Irwin Decl. ¶7].¹⁸

Finding itself unable to support the legal adequacy of its counterclaim as pleaded—particularly its inability to show any restraint of trade from the alleged concerted refusal to license La Mancha rights to rent videodiscs to hotel guests, which are rights La Mancha has freely exercised throughout this litigation even without licenses from plaintiffs—La Mancha is plainly attempting to divert the court's attention by faulting plaintiffs for not addressing claims of antitrust wrongdoing which have never been leveled against them. This sleight-of-hand does not suffice to support the viability of the antitrust claims actually pleaded, nor does it serve to deny plaintiffs the right to summary judgment.

B. La Mancha has adduced no evidence which would establish that any refusal by plaintiffs to license videodisc rights to La Mancha could have unreasonably restrained trade or impeded La Mancha's ability to compete.

La Mancha alleges that plaintiffs engaged in a concerted refusal to license videodisc rental rights to La Mancha [Counterclaim ¶34; ¶39 and ¶45]. Plaintiffs have moved

¹⁸ These allegations are not only unpleaded in the counterclaim, they are totally unsupported by any evidence adduced in opposition to this motion [see Part III.B, *infra*].

for summary judgment on the ground that any concerted refusal by plaintiffs to grant rights which the Ninth Circuit has ruled La Mancha already has and which La Mancha has exercised throughout this litigation cannot have restrained trade or impeded La Mancha's ability to compete in violation of the antitrust laws. La Mancha has come forward with no evidence to rebut plaintiffs' showing.

To attempt to show the existence of an unreasonable restraint of trade, La Mancha relies exclusively on the declaration of defendant Kenneth Irwin. However, the Irwin declaration does not contain evidence which, if believed by the trier of fact, demonstrates that any refusal by plaintiffs to grant videodisc licenses to La Mancha has unreasonably restrained trade or impeded La Mancha's ability to compete.

Irwin does not quarrel with the fact that under the Ninth Circuit's decision herein, La Mancha did not need a license or other permission from plaintiffs in order to carry out an in-room video rental program at La Mancha's hotel.¹⁹ Instead, Irwin surmises in his declaration that "we have been precluded from expanding our in-room video rental program to other hotels as a direct result of Counterdefendants' intimidation, threats of litigation and refusal to license" [Irwin Decl. ¶6]. There is, however, no foundation for this conclusory statement by Mr. Irwin.

The speculative nature of Irwin's "evidence" is highlighted by the following portion of his declaration:

I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterdefendant movie studios. *I believe* further that larger chains, in particular, were reluctant to make a substantial investment in video technology absent a license

¹⁹ Indeed, Irwin and La Mancha have acted without plaintiffs' permission throughout this litigation.

from the movie studios. [Irwin Decl. ¶3] (emphasis supplied).

Significantly, there are no facts in Irwin's declaration setting forth a foundation for these beliefs. Mr. Irwin is plainly speculating as to why other hotels did or did not invest in in-room video viewing systems. Speculation unsupported by evidence is not sufficient to defeat a motion for summary judgment.

La Mancha offers no excuse whatever for its failure to obtain competent evidence to support its contention that plaintiffs' alleged concerted refusal to grant in-room videodisc licenses unreasonably restrained trade. If third party hoteliers had actually refused to install in-room video facilities as a result of any conduct by plaintiffs, La Mancha could clearly have obtained declarations or deposition testimony from those potential customers in support of its contention that those customers refused to deal with La Mancha as a result of plaintiffs' conduct. This they did not do.

In sum, the Irwin declaration simply contains no *evidence* that the alleged refusal by plaintiffs to grant videodisc licenses caused any restraint of trade. There are thus no genuine issues of material fact which would preclude entry of summary judgment in plaintiffs' favor on this claim.

C. La Mancha has not suffered antitrust injury as a result of any concerted refusal by plaintiffs to grant videodisc licenses to other hotels.

Plaintiffs' moving papers demonstrate that La Mancha cannot have suffered antitrust injury from a concerted withholding of rights which La Mancha has exercised throughout this litigation. La Mancha does not attempt to refute this contention. Instead, La Mancha seeks to rebut this argument and establish the existence of antitrust injury by arguing that plaintiffs' alleged refusal to grant

other hotels videodisc licenses for exhibition of videodiscs in hotel rooms has somehow prevented La Mancha from selling videodisc player equipment to those other hotels [Irwin Decl. ¶3].

First, it should be noted that such a claim must fail because La Mancha did not plead it in its counterclaim. The only specie of damages pleaded by La Mancha in its counterclaim was attorney's fees incurred in defending the underlying copyright infringement action [Counterclaim ¶36, ¶42 and ¶46.]

Second, as noted above [see Part III.B., *supra*] La Mancha has presented no *evidence* (as opposed to Irwin's inadmissible speculation) to support such a claim. Moreover, even in speculating that other hotels failed to install in-room video systems as a result of plaintiffs' conduct, Irwin focuses on plaintiffs' threats of litigation, rather than any concerted refusal to grant licenses, as the cause of other hotels' conduct.²⁰ Since any threats of litigation by plaintiffs would be immune under *Noerr-Pennington* [see Part II.D., *supra*], even anticompetitive effects flowing from such protected activity would not give rise to antitrust liability. Cf. *Rickards II*, *supra*, 783 F.2d at 1333 (no antitrust liability for group boycott where anticompetitive effects resulted from lawsuit rather than from boycott; antitrust liability imposed only after finding that prior lawsuit was "baseless").

Third, La Mancha lacks standing to assert a claim for lost revenues from sale of videodisc equipment to other hotels unable to obtain licenses from plaintiffs for exhibition of movies on videodiscs in hotel rooms. In essence, La Mancha contends that it was a supplier of videodisc equipment to the hotel market and that it has been inci-

²⁰ Irwin states as follows: "I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterdefendant movie studios" Irwin's Decl. ¶3 (emphasis added).

dentally affected by a refusal on the part of plaintiffs to grant copyright licenses to participants in the market. Such losses are too remote to constitute "antitrust injury" and confer standing on LaMancha to challenge this alleged antitrust violation.

In *Associated General Contractors, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 103 S.Ct. 897, 74 L.Ed.2d 723 (1983), the Supreme Court held that a union did not have standing to challenge a conspiracy by a rival union to restrain trade in the market for construction subcontracts. Even though the plaintiff union was a supplier of workers for the subcontracting market allegedly restrained, and even though the union might be incidentally adversely affected by a lessening of competition in that market, the Supreme Court nonetheless held that the plaintiff's injuries "were only an indirect result" of an antitrust violation directly affecting the contractors and thus were not recoverable. 459 U.S. at 541-543. Interpreting *Associated General Contractors*, the Ninth Circuit has stated that "the requirement that the alleged injury be related to anticompetitive behavior requires, as a corollary, that the injured party be a participant in the same market as the alleged malefactors." *Bhan v. NME Hospitals, Inc.*, 772 F.2d 1467, 1470 (9th Cir. 1985).

Under La Mancha's scenario pursuant to which it lost the opportunity to sell videodisc player equipment to hotels who were unable to obtain licenses from plaintiffs, La Mancha is not a participant in the market as to which the antitrust violation is directed. As a supplier of video equipment, La Mancha is *not* seeking losses sustained in its capacity as a would-be, but unsuccessful, licensee of the videodisc licenses which were allegedly withheld through concerted activity. Instead, like the union in *Associated General Contractors*, La Mancha is at best a supplier of a commodity (here, videodisc players) to be utilized in the market allegedly restrained as a result of the defendants' alleged unlawful activity. Like the losses unsuccessfully

sought by the union in *Associated General Contractors*, the injuries allegedly suffered by La Mancha in its capacity as a would-be supplier of videodisc equipment to other hotels are, at most, derivative of a restraint allegedly imposed on others (here, *other* hotels who were potential licensees of videodisc rental rights) who are the targets of the alleged concerted refusal to deal. Being "only an indirect result" of the antitrust violation, however, these damages are not compensable under the antitrust laws. *Associated General Contractors*, 459 U.S. at 541.

La Mancha has thus failed to show how it could suffer antitrust injury from the challenged conduct: it cannot show it suffered antitrust injury in its capacity as a potential licensee of in-room videodisc license rights, because La Mancha has continuously exercised these rights even absent a license, and it cannot show it suffered antitrust injury in its capacity as a video hardware supplier to other would-be licensees, because such injuries are too remote to constitute "antitrust injury." *Associated General Contractors*, *supra*.

D. La Mancha has no evidence that plaintiffs engaged in an unlawful group boycott directed toward it.

In its counterclaim, La Mancha charges plaintiffs with "boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs. . ." [e.g., Coounterclaim ¶34]. In its opposition to the pending motion for summary judgment, however, La Mancha makes plain that it has no evidence to support such a charge.

In order to sustain a claim that plaintiffs concertedly refused to license videodisc rights to La Mancha, La Mancha would need to show the following: (i) actual refusals by plaintiffs to deal with La Mancha which (ii) were the result of concerted, rather than unilateral, decisions by plaintiffs. While La Mancha would probably need discovery to establish that any refusal by plaintiffs to deal with La Mancha was the result of concerted action, it is clear that

La Mancha needs no discovery to come forward with evidence that plaintiffs refused to deal with it. Surely Irwin knows without the benefit of discovery whether plaintiffs refused La Mancha's attempts to obtain videodisc performance licenses. Yet in his declaration, Irwin makes plain that the only refusal by plaintiffs to license videodisc rights to La Mancha occurred *in response to Irwin's attempts to settle this litigation*. Irwin thus states as follows:

After the institution of this litigation, I attempted for more than a year to obtain licenses from Counterdefendants to use and install in-room video systems in guest lodgings. None of the counterdefendants would grant a license on reasonable terms. [Irwin Decl. ¶5] (emphasis supplied).

Irwin's claim of a concerted refusal to deal is plainly premised upon plaintiffs' alleged refusal to settle this litigation by licensing videodisc right to him after the lawsuit was underway rather than on any pre-litigation group boycott. However, a refusal to settle a lawsuit hardly constitutes a boycott or other antitrust violation. A refusal to settle a lawsuit constitutes no more than an insistence on pursuing litigation protected by the *Noerr-Pennington* doctrine and is thus itself immune from antitrust liability.

In sum, La Mancha not only lacks evidence of anticompetitive effect and antitrust injury resulting from plaintiffs' alleged concerted refusal to deal, *it also lacks evidence that an unprivileged concerted refusal to deal took place at all.*

IV.

LA MANCHA HAS NOT SHOWN THAT ANY FAILURE BY PLAINTIFFS TO ACCORD DISCOVERY TO LA MANCHA HAS IMPAIRED LA MANCHA'S ABILITY TO OPPOSE THIS MOTION.

La Mancha asserts that plaintiffs are not entitled to entry of summary judgment "because counterdefendants

have refused to cooperate in discovery" [La Mancha Memorandum at 8]. If, in fact, La Mancha has not received discovery it needs to oppose this motion, this is a consequence of its insistence upon propounding overly-broad discovery requests coupled with its failure to move the court to compel the discovery which was purportedly withheld. Under these circumstances, there is no need to defer ruling on the pending motion for summary judgment to allow more time for discovery.

On April 17, 1989, the court held a status conference during which it entered a comprehensive pretrial scheduling order relating to the counterclaim [Seal Decl. ¶7]. Immediately thereafter, plaintiffs' counsel met with La Mancha's counsel in the courthouse corridor to discuss resumption of discovery.²¹ Plaintiffs' counsel invited La Mancha's counsel to telephone them immediately to discuss outstanding discovery issues [*id.*]. Notwithstanding this invitation, it was not until June 27, 1989—*more than two months after the status conference with the court*—that La Mancha's counsel next contacted plaintiffs' counsel to discuss further discovery, including the production of documents [*id.* ¶8].

Plaintiffs produced documents to La Mancha during August and September 1989 [Seal Decl. ¶8]. Plaintiffs legitimately refused, however, to comply with those document requests which were overbroad as to time period, subject matter and geographical scope. In late September and early October 1989, La Mancha's counsel contacted plaintiffs' counsel and requested additional production of documents in response to these overbroad requests [*id.* ¶10]. The parties were able to narrow their remaining differences regarding the scope of discovery to two main issues: (i) the time period for which documents would be produced;

²¹ In March 1986, the court stayed discovery pending the outcome of the earlier appeal in this case [Seal Decl. ¶6].

and (ii) the subject matter of the documents to be produced.

With regard to the issue of time period, La Mancha contends it is entitled to production of certain documents pertaining to events as early as 1961, even though it would not be entitled to damages for any period earlier than four years prior to the institution of the counterclaim on February 9, 1984 [Seal Decl. ¶11; Seal Decl. Exh. 3]. Regarding subject matter, La Mancha insists that it is entitled to all documents which contain any restriction on the exhibition of videodiscs in any form of "lodging"—including places such as college dormitories, hospitals, rest homes, nursing homes, apartments and prisons [Seal Decl. ¶12]—even though (a) La Mancha has never sought to exhibit videodiscs in these types of places²² and (b) the counterclaim does not allege that plaintiffs unlawfully restricted exhibition of videos in such places.

Moreover, notwithstanding its contention that it has been wrongfully denied discovery, *La Mancha failed to make a timely effort to compel the discovery sought*. In early October 1989, counsel for plaintiffs invited La Mancha's counsel to enlist the court's assistance in resolving the pending discovery disputes [Seal Decl. ¶13]. Plaintiffs' counsel explained to La Mancha's counsel that they would need to file a joint stipulation focusing upon the parties' contentions relating to the remaining areas of disagreement [*id.*]. Almost two months then passed before counsel for La Mancha submitted a draft of a proposed joint stipulation to plaintiffs' counsel for consideration [*id.* ¶15]. Plaintiffs' counsel did not even receive the draft joint stipulation until *December 4, 1989*, two weeks before the date scheduled for plaintiffs' motion for summary judgment which

²² To the contrary, defendant Irwin states only that he "attempted to develop a market for the sale and installation of videodisc player equipment to other hotels for private, in-room viewing" [Irwin Decl. ¶3].

was served on September 22, 1989 [*id.*]. However, neither this draft, nor a later draft furnished plaintiffs on December 7, 1989, set forth La Mancha's position with respect to any of these discovery issues, thus making it impossible for plaintiffs' counsel to prepare responses to be included in a joint stipulation [*id.* ¶16-¶18].

La Mancha can hardly argue that plaintiffs' motion for summary judgment must be denied pending resolution of discovery disputes when La Mancha has been so dilatory in bringing these discovery disputes before the court for resolution. Indeed, it appears that *La Mancha has made a calculated decision not to press for discovery—obviously concluding that if it received all the discovery it sought, it would be in no better position to oppose the pending motion for summary judgment than it is now*—all for the sole purpose of affording themselves the opportunity to complain to the court that the motion for summary judgment must be denied because discovery has not been forthcoming.

Moreover, La Mancha cannot argue that the motion for summary judgment must be denied to permit it to obtain further discovery where, as here, such discovery would be of no use to La Mancha because plaintiffs are entitled to summary judgment *as a matter of law*. No amount of discovery will enable La Mancha to meet its burden of showing that the underlying copyright infringement suit here was "baseless" or that any concerted withholding of rights which La Mancha has exercised throughout this litigation has unreasonably restrained trade in a manner causing La Mancha antitrust injury. La Mancha's theories are insupportable as a matter of law, and no amount of discovery will aid La Mancha in its futile attempts to base a claim of antitrust wrongdoing on these theories.

V.

DEFENDANTS' STATE LAW CLAIMS SHOULD FALL WITH THE FEDERAL CLAIMS.

La Mancha argues [La Mancha Memorandum at 19] that its state law claims are "ancillary," rather than "pendent" claims, and that such ancillary claims "cannot be dismissed," but rather "must be tried in this action." However, none of the authority that La Mancha cites supports this argument. According to established case law, La Mancha's state claims, whether ancillary or pendent, should be dismissed with the federal claims, absent a finding that dismissal would be unjust. *See, e.g., Danner v. Himmelfarb*, 858 F.2d 515 (9th Cir. 1988).

"[A]ncillary jurisdiction, like pendent jurisdiction, is a 'doctrine of discretion.'" *Danner*, 858 F.2d at 523. Ancillary jurisdiction is based upon factors such as "judicial economy, convenience and fairness to litigants." *Id.*, 858 F.2d at 523. Absent those considerations, "a federal court should hesitate to exercise jurisdiction over state claims Certainly, if the federal claims are dismissed before trial, even though not insubstantial in a jurisdictional sense, the state claims should be dismissed as well.'" *United Mine Workers v. Gibbs*, 383 U.S. 715, 726, 86 S.Ct. 1130, 16L.Ed.2d 218 (1966).

Pursuant to *Gibbs*, the Ninth Circuit's "practice [is] to dismiss state law claims once the federal claim has been resolved." *Danner*, 858 F.2d at 523. La Mancha offers no reason why the Court should deviate from the general practice in this Circuit and retain jurisdiction of La Mancha's state claims once La Mancha's federal claims are dismissed. The inconvenience of re-filing in state court is not enough. "Having to bring parallel suits may be a hardship, but it is not an injustice." *Id.* 858 F.2d at 524.

If the Court grants summary judgment on La Mancha's federal antitrust claims, the Court should also dismiss La

Mancha's state claims, be they categorized as "ancillary" or "pendent."

CONCLUSION

For the reasons set forth herein and in plaintiffs' moving papers, plaintiffs' motion for summary judgment should be granted.

Dated: Dec. 11, 1989 ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
STACEY M. BYRNES

By Stephen A. Kroft
Stephen A. Kroft
Attorneys for Plaintiffs and
Counterdefendants

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

No. 83-2594

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,

Defendants.

AND RELATED COUNTERCLAIM

DECLARATION OF JAMES L. SEAL

Date: December 18, 1989

Time: 10:00 a.m.

I, James L. Seal, declare as follows:

1. I am a member of the bar, duly admitted to practice before this court. I am a partner in the firm of Rosenfeld, Meyer & Susman, counsel of record for the plaintiffs and counterclaim defendants in this action. I am one of the attorneys responsible for preparing this matter for trial on behalf of the plaintiffs, and in that capacity, I have gained first hand knowledge of the matters hereinafter set forth.

2. As part of its opposition to the plaintiffs' pending motion for summary judgment, La Mancha has submitted the Declaration of Patrick J. Coyne. In Mr. Coyne's declaration, he suggests that La Mancha has been denied discovery which it needs in order to obtain evidence in

support of its case and to oppose the plaintiffs' motion for summary judgment. Mr. Coyne's declaration does not, in my view, accurately set forth the status of discovery with respect to the counterclaim herein.

3. Mr. Coyne states that the plaintiffs have refused to provide any information regarding La Mancha's assertion of copyright misuse [Coyne Decl. ¶ 4] or regarding the issues of the alleged monopoly which plaintiffs purportedly maintain over the rental market for videos [*id.* ¶ 5]. To read Mr. Coyne's declaration, one might reasonably assume that La Mancha has received no discovery at all from the plaintiffs to date. This is not true. La Mancha has received substantial production of documents in categories which Mr. Coyne has told us relate to La Mancha's claims of copyright misuse and monopolization of some relevant market for video rentals.

4. In January 1985, La Mancha served a request for production of documents pursuant to Rule 34, Federal Rules of Civil Procedure, on all plaintiffs. (Appended to this declaration as Exhibit 1 is an exemplar of this request served on plaintiff Columbia Pictures Industries, Inc.). By reason of the extreme breadth of the categories of documents requested, the plaintiffs lodged a number of objections to the request, particularly those aspects of the request pertaining to La Mancha's counterclaim.

5. In an effort to reach an acceptable compromise and to accord La Mancha discovery to which it was legitimately entitled, plaintiffs offered to make available certain categories of documents which La Mancha had requested. On February 11, 1986, Maren Christensen, a partner of Rosenfeld, MKeyer & Susman, wrote a letter to counsel for La Mancha setting forth those categories of documents which the counterclaim defendants would be willing to produce. A true and correct copy of Ms. Christensen's letter to La Mancha's counsel is appended hereto as Exhibit 2.

6. In March 1986, the court stayed all discovery respecting the counterclaim pending a resolution of the appeal from the entry of summary judgment in favor of La Mancha on the complaint. Consequently, plaintiffs deferred producing the documents referred to in Ms. Christensen's letter pending the appeal.

7. On April 17, 1989—after the Ninth Circuit Court of Appeals had affirmed the entry of summary judgment in the defendants' favor on the complaint—a status conference was held with the court. I personally attended that hearing along with Stephen A. Kroft, another partner in Rosenfeld, Meyer & Susman. At that conference, the Court entered a scheduling order setting forth a comprehensive schedule of discovery and other pretrial matters. Immediately after the hearing on April 17, Mr. Kroft and I met with Jeffrey King, one of the attorneys for La Mancha, in the courthouse corridor to discuss compliance with the Court's scheduling order. Mr. Kroft and I invited Mr. King to call us that same day or soon thereafter to get discovery underway.

8. Notwithstanding our offer made on April 17, it was not until June 27, 1989—*over two months later*—that La Mancha's counsel next contacted us to discuss re-activation of discovery. When contacted by La Mancha's counsel in June 1989, Mr. Kroft and I again offered to produce the documents referred to b Ms. Christensen in February 11, 1986, letter [Exhibit 2]. Without prejudice to its rights to seek additional documents, La Mancha agreed to accept and review these documents. These documents were produced and made available to La Mancha during the months of August and September 1989.

9. Included in the documents produced for La Mancha were exemplars of warning labels placed upon videocassettes distributed by plaintiffs. Plaintiffs also produced hundreds of pages of license agreements between themselves and various entities who manufactured and distrib-

uted video tapes for the plaintiffs. Plaintiffs have also produced cease-and-desist letters which had been sent by some plaintiffs to entities who were engaged in activities which the plaintiffs believed to be unlawful exhibition of copyrighted videocassettes.

10. During the months of September and October 1989, Stephen Kroft and I, acting on behalf of plaintiffs, had a series of discussions with Mr. Coyne regarding discovery relating to the counterclaim. During these discussions, Mr. Coyne asked for production of additional documents beyond those we have been willing to produce. Although we have narrowed the areas of disagreement between us, we have not reached agreement as to which documents will in fact be produced. Disputes remain regarding the time period for which documents will be produced and the subject matter of documents which are properly discoverable.

11. Regarding time period, Mr. Coyne insists that La Mancha is entitled to some documents relating to a time period as early as 1961 and that all copyright notices on videocassettes and manufacturing license agreements pertaining to the time period commencing with the effective date of the Copyright Act of 1976 (January 1, 1978) to date must be searched for and produced. We disagree with La Mancha's entitlement to documents covering this time period of almost twelve years, since La Mancha, at most, would be entitled to damages under its counterclaim for the four-year period prior to its filing, *i.e.*, from February 9, 1980, through February 9, 1984. Consequently, plaintiffs have offered to make available—and have made available—relevant documents pertaining to the time period 1980-1984.

12. Another area of disagreement remains with respect to the subject matter of documents to which La Mancha is entitled. Plaintiffs agree that La Mancha is entitled to any documents which plaintiffs might have which restrict the exhibition of videocassettes and videodiscs in hotels

and motels, the only market in which La Mancha competed during the four years prior to the filing of the counterclaim. La Mancha insists, however, that it also entitled to production of documents which might contain restrictions on the exhibition of videocassettes and videodiscs in *any* kind of "lodging," including places such as college dormitories, hospitals, rest homes, apartments and prisons, even though such "lodgings" bear no resemblance to the hotel/motel operation run by La Mancha.

13. In light of the foregoing, Mr. Kroft and I have told Mr. Coyne that his discovery requests are too broad and must be further narrowed. On October 5 or 6, 1989, at the conclusion of one of our telephone discussions with Mr. Coyne, Mr. Kroft and I invited Mr. Coyne to enlist the court's assistance in obtaining further discovery if he felt we were wrongfully withholding discovery that he was entitled to. We explained to him the need to file a joint stipulation [Local Rule 7.15.2] setting forth the exact areas of disagreement between us which required resolution by the court.

14. On October 12, 1989, Mr. Coyne wrote us a letter setting forth his understanding of the areas as to which we had reached agreement regarding the counterclaimants' discovery demands and those areas where we continued to disagree. A true and correct copy of that letter is appended hereto as Exhibit 3. However, it was not until December 4, 1989—*almost two months later* and virtually on the eve of the hearing on plaintiffs' motion for summary judgment—that we next heard from La Mancha regarding its desire to move to compel further discovery.

15. On December 4, Laura Barns, one of La Mancha's counsel, sent me a document which she described as a draft joint stipulation to be filed in connection with La Mancha's discovery motion [see letter from Laura Barns to James L. Seal appended as Exhibit 4 hereto and draft joint stipulation appended hereto as Exhibit 5]. In fact,

the proposed "joint stipulation" we received from Ms. Barns was nothing of the sort. The document sent to us [Exhibit 5 hereto] was merely list a of sixteen issues relating to discovery which allegedly remained unresolved. *The document sent to us did not contain La Mancha's positions with respect to any of the discovery issues enumerated therein.* Nonetheless, La Mancha—having taken almost two months to send us this document which we did not receive until December 4—insisted that we prepare our written positions with respect to each of these issues "in final" and return them to La Mancha's counsel no later than December 8 [see Barns letter (Exhibit 4)].

16. La Mancha gave us no hint as to how we were to prepare rebuttals to its arguments "in final" when the joint stipulation sent to us contained nothing regarding La Mancha's positions on any of these sixteen issues. La Mancha in essence insisted that we furnish written opposition to its discovery motion on four days' notice without even telling us what the grounds for the motion were. Given the total inadequacy of the draft joint stipulation sent to us, I promptly advised La Mancha's counsel that we would be unable to comply with the totally unrealistic deadline she had set for preparation of the joint discovery stipulation [see letter of James L. Seal to Laura J. Barns dated December 5, 1989, appended hereto as Exhibit 6].

17. On December 8, 1989, I received another letter from La Mancha's counsel, Laura Barns. In that letter (appended hereto as Exhibit 7), Ms. Barns sent me what she represented to be "another draft of the stipulation for Irwin's motion to compel." Regarding the inadequacy of the earlier draft sent to me—which set forth numerous discovery "issues" but did not set out Irwin's contentions with respect to said issues—Ms. Barns stated as follows:

"Although the parties have discussed these issues *ad nauseam*, plaintiffs should be award of Irwin's position on each issue, and Irwin is not required

to provide you with its contentions, I have included them in this draft of the stipulation."
[Barns letter dated December 7, 1989 (Exhibit 7)]

18. I have personally reviewed each page of the draft stipulation sent to me by Ms. Barns with her December 7 letter. Except for the fact that the revised stipulation deletes the hearing date on the caption page and notice of hearing (which is shown as "December 18, 1989" in both places, on Exhibit 5 to this declaration), *the joint stipulation sent to me on December 7 was identical to the joint stipulation appended hereto as exhibit 5 which I received on December 4.* In other words, notwithstanding Ms. Barn's representations to the contrary in her December 7 letter (Exhibit 7), La Mancha and Irwin have still not furnished us with their contentions with respect to any of the discovery issues they wish to have the court address. La Mancha thus continues to insist that we prepare an opposition to its discovery motion prior to the time we have had an opportunity to see any of the grounds La Mancha intends to advance to the court in support of its motion. Not knowing the particulars of La Mancha's and Irwin's contentions with respect to each of these discovery issues, we remain unable to prepare our portion of the joint stipulation to rebut those contentions in a manner to help the court focus on the specific discovery issues which the court must resolve for the parties.

If called as a witness in these proceedings, I could and would testify competently to the foregoing.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on this 11th day of December, 1989, at Beverly Hills, California.

/s/ James L. Seal
JAMES L. SEAL

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

PLAINTIFFS' EVIDENTIARY OBJECTIONS TO
"DECLARATION OF KENNETH F. IRWIN"

Date: December 18, 1989

Time: 10:00 a.m.

Plaintiffs hereby submit the following evidentiary objections to the "Declaration of Kenneth F. Irwin" dated November 7, 1989) (hereinafter "Irwin Decl."):

Irwin Decl. ¶3—"I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterdefendant movie studios. I believe further that larger chains, in particular, were reluctant to make a substantial investment in video technology absent a license from the movie studios."

OBJECTION: This is impermissible speculation not based upon the personal knowledge of the declarant. There is no evidence to establish a foundation to show that the witness has personal knowledge of the reasons hotels did or did not invest in in-room video systems or video technology. Declarant Irwin's "be-

liefs" are irrelevant. Rule 602, Federal Rules of Evidence.

* * *

Irwin Decl. ¶6—"We have been precluded from expanding our in-room video rental program to other hotels as a direct result of Counterdefendants' intimidation, threats of litigation, and refusal to license."

OBJECTION: This is impermissible speculation. Declarant Irwin is speculating as to why other hotels did not implement in-room video rental programs, and there is no evidence adduced to establish a foundation to show that the declarant has personal knowledge of this matter. Rule 602, Federal Rules of Evidence.

* * *

Irwin Decl. ¶7—"Some hotel [sic] are reluctant to provide stand alone video viewing systems in addition to a cable system."

OBJECTION: This is impermissible speculation. Declarant Irwin is speculating as to why other hotels did not implement stand alone video viewing systems, and there is no evidence adduced to establish a foundation to show that the declarant has personal knowledge of this matter. Rule 602, Federal Rules of Evidence.

* * *

Irwin Decl. ¶7—"Some of the opportunities that were available to us for the development of an in-room video market several years ago, therefore, have now been lost as a result of Counterdefendants' activities. . ."

OBJECTION: This is impermissible speculation. Defendant Irwin is speculating as to the reasons why opportunities, if any, were lost, and there is no evidence adduced to establish a foundation to show that the declarant has personal knowledge of this matter. Rule 602, Federal Rules of Evidence.

JA-618

Dated Dec. 11, 1989 ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
STACEY M. BYRNES

By Stephen A. Kroft
Stephen A. Kroft
Attorneys for Plaintiffs and
Counterdefendants

[Certificate of Service omitted in this printing]

JA-619

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
CIVIL MINUTES—GENERAL

CV83-2594-WPG

December 18, 1989

Title COLUMBIA PICTURES CO et al v. PROFESSIONAL
REAL ESTATE INVESTORS, et al

PRESENT:

HON. WILLIAM P. GRAY, JUDGE
S. Pfeifer, Deputy Clerk
Candee Marsh, Court Reporter

ATTORNEYS PRESENT FOR PLAINTIFFS:

Stephen A. Kroft
James L. Seal

ATTORNEYS PRESENT FOR DEFENDANTS:

Jeffrey King

PROCEEDINGS: PLAINTIFF'S MOTION FOR S/J as to 1st,
2nd, 3d cntreclaims and for dismissal of
remaining pendent state claims

Court hears argument. Counsel may file short supple-
mental briefs within 20 days, with reply within 20 days
and the court to consider the matter submitted and rule
within ten days.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
HONORABLE WILLIAM P. GRAY, JUDGE PRESIDING

CV-83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,
v.
PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,
Defendants.

CERTIFIED
COPY

TRANSCRIPTS OF PROCEEDINGS
PASADENA, CALIFORNIA
DECEMBER 18, 1989

CANDEE MARSH
OFFICIAL COURT REPORTER
432 U.S. COURTHOUSE
312 NORTH SPRING STREET
LOS ANGELES, CA. 90012
(213) 625-2881

APPEARANCES:

FOR THE PLAINTIFF:

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FOR THE DEFENDANT:

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WASHINGTON, D.C. 2007
(202) 342-8510

INDEX

HEARING:

1. PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT AS TO FIRST, SECOND, THIRD COUNTERCLAIMS AND FOR DISMISSAL OF REMAINING PENDENT STATE CLAIMS.

LOS ANGELES, CALIFORNIA; MONDAY, DECEMBER
18, 1989

(MORNING SESSION)

THE CLERK: ITEM NUMBER FOUR, CIVIL 83-2594, COLUMBIA PICTURES COMPANY, ET AL. VERSUS PROFESSIONAL REAL ESTATE INVESTORS.

COUNSEL, YOUR APPEARANCES, PLEASE.

MR. KING: GOOD MORNING, YOUR HONOR. MY NAME IS JEFFREY KING. I'M HERE FOR THE COUNTER-PLAINTIFF'S PROFESSIONAL REAL ESTATE INVESTORS, INC. AND OTHERS.

MR. KROFT: GOOD MORNING, YOUR HONOR. STEPHEN KROFT AND JAMES SEAL FROM ROSENFELD, MEYER & SUSMAN FOR THE PLAINTIFFS.

THE COURT: ALL RIGHT. IT'S YOUR MOTION; ISN'T IT?

MR. KROFT: NO, YOUR HONOR. IT'S THE COUNTER-DEFENDANT'S MOTION.

THE COURT: OH, YES. WELL, LET'S SEE.

I'M GOING TO HAVE TO REFRESH MY RECOLLECTION AS TO THE INTERROGATORY SITUATION. THIS IS COLUMBIA PICTURES' MOTION FOR SUMMARY JUDGMENT; IS THAT RIGHT, MR. KROFT?

MR. KROFT: YES, YOUR HONOR.

THE COURT: THAT'S YOU?

MR. KROFT: THAT'S ME, YOUR HONOR.

THE COURT: ALL RIGHT. LET ME TELL YOU WHAT I THINK ABOUT IT.

THE FIRST QUESTION IS WHETHER THIS ACTION WAS A SHAM AS A MATTER OF LAW. I DO NOT—I'M CONVINCED THAT IT WAS NOT A SHAM.

I SAID IN THE EARLIER PROCEEDINGS THAT THIS IS A VERY CLOSE CASE. MY OWN NOTES THAT I MADE BEFORE THE HEARING OF MARCH 24TH, 1986, ARE THAT I HAVE GRAVE DOUBT THAT THE DEFENDANTS WOULD BE ABLE TO SHOW BAD FAITH. THE CIRCUIT COURT OF APPEALS HAD TROUBLE WITH THIS CASE TOO.

AND I'M CONVINCED THAT AS A MATTER OF LAW, IT WAS NOT A SHAM. AND WHETHER THE PLAINTIFFS THOUGHT THEY COULD RECOVER, I THINK IS BESIDE THE POINT. THIS IS A MATTER OF LAW.

THEREFORE, I THINK THAT NOERR-PENNINGTON APPLIES. AND THEREFORE, AS I SAY, I'M DISPOSED TO GRANT A MOTION FOR SUMMARY JUDGMENT TO DISMISS COUNTS ONE, TWO, AND THREE, I THINK IT IS, OF THE COUNTERCLAIM.

THE DEFENDANTS CLAIM DAMAGES BECAUSE COLUMBIA PICTURES OR THE PLAINTIFF WOULD NOT LICENSE THEM, AS I UNDERSTAND IT, TO LEASE THEIR VCR'S TO THE PEOPLE THAT ARE GUESTS IN THEIR HOTELS.

WELL, I THINK THERE ARE TWO ANSWERS TO THAT. IN THE FIRST PLACE, WE NOW KNOW THEY DIDN'T NEED A LICENSE.

SECONDLY, IF THE PLAINTIFFS THOUGHT THAT THEY DID NEED A LICENSE AND WERE DISPOSED NOT TO ALLOW THOSE LEASES TO PEOPLE TO SHOW THESE THINGS IN THEIR HOTEL ROOMS WITHOUT PAYING A ROYALTY, I CAN WELL UNDERSTAND HOW THEY WOULDN'T DO IT UNDER NOERR. I CAN WELL UNDERSTAND HOW THEY WOULD NOT BE DISPOSED TO GRANT TO THE DEFENDANT A LICENSE.

AND AS FAR AS THEIR THREATENING TO SUE OTHER HOTEL OWNERS THAT DID LEASE THOSE VCR'S FOR USE IN THE HOTEL ROOMS, IF THEY HAD A RIGHT TO

SUE, THEY HAD A RIGHT TO THREATEN TO SUE. I THINK NOERR AGAINST PENNINGTON COVERS THAT ALSO.

I THINK THAT THE DEFENDANTS SHOULD HAVE BEEN SATISFIED WITH THE VICTORY THAT THEY HAD RATHER THAN TRYING TO PREVAIL UNDER THEIR CROSS-COMPLAINT, WHICH I DO NOT BELIEVE TO BE MERITORIOUS.

AND THEREFORE, I'M DISPOSED TO DISMISS THE FEDERAL ACTIONS AND DISMISS THE PENDENT ACTIONS BECAUSE THE FEDERAL ACTIONS ARE GONE.

ALL RIGHT. I THINK THE DEFENDANTS ARE UP.

MR. KING: YOUR HONOR, THE NINTH CIRCUIT IN CLIPPER EXXPRESS SAID THAT A SHAM IS A FACTUAL ISSUE, NOT A MATTER OF LAW ISSUE. IT—

THE COURT: IT DID? IN WHAT CASE?

MR. KING: CLIPPER EXXPRESS. IT'S AT 690 F2ND 1240. I BELIEVE IT'S AT PAGE 1253, BUT I'M NOT SURE. I'D HAVE TO LOOK.

THE COURT: WELL, GIVE ME THE VOLUME—GIVE ME THE CITATION AGAIN.

MR. KING: 690 F2ND.

THE COURT: 790?

MR. KING: 690, YOUR HONOR.

THE COURT: 690.

MR. KING: F2ND 1240, NINTH CIRCUIT, 1982. AND I BELIEVE IT'S AT PAGE 1253.

THE COURT: I'M SURPRISED AT THAT. THE STUDY THAT I MADE INDICATES THAT IT'S A QUESTION OF LAW.

I'LL INVITE THE PLAINTIFFS TO RESPOND TO THAT. ALL RIGHT. GO AHEAD.

MR. KING: IT'S AT PAGE 1253. IT SAYS "WHETHER SOMETHING IS A GENUINE EFFORT TO INFLUENCE GOVERNMENTAL ACTION"—

THE COURT: ONCE MORE. ONCE MORE. I DIDN'T HEAR YOU.

MR. KING: I'M SORRY. IT'S AT PAGE 1253, YOUR HONOR, CLIPPER EXXPRESS.

IT STATES "WHETHER SOMETHING IS A GENUINE EFFORT TO INFLUENCE GOVERNMENTAL ACTION OR MERE SHAM IS A QUESTION OF FACT."

I WOULD LIKE TO SUGGEST THAT THERE ARE FACTS HERE TO BE DEVELOPED. AND THERE ARE FACTS HERE, BECAUSE I THINK WHAT WE'RE GETTING CONFUSED WITH IS WHETHER THERE IS AN IMPROPER ANTI-TRUST INTENT OR WHETHER THEY HAD KNOWLEDGE.

WE DO NOT CONTEND THAT—

THE COURT: WHETHER THEY HAD KNOWLEDGE OF WHAT?

MR. KING: KNOWLEDGE THAT THEIR CLAIMS ARE BASELESS.

WE HAVE INFORMATION THAT THEY MAY HAVE BELIEVED THAT TO BE SO.

IN ANOTHER CASE, WHICH INVOLVED THE SAME COUNSEL AND LAW FIRM, COLUMBIA PICTURES VERSUS AVECO, THEY CLAIMED THE HOTEL WAS A PRIVATE PLACE AND ADMITTED IT TO BE SO.

CERTAINLY, IT'S AN INCONSISTENCY WORTH EXPLORING.

SECONDLY, DURING THE COPYRIGHT ACT LEGISLATIVE HISTORY, WE SEE CONTINUAL REFERENCES TO THE CONCEPT OF PRIVATE LODGING AREAS OF OUR HOTEL.

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MR. KING: THIS IS WHEN THEY WERE—THIS IS DURING THE LEGISLATIVE HISTORY OF BOTH THE INITIAL ACT, WHICH IS WHAT WAS SUED UNDER THE 1976 ACT, AND ALSO UNDER SUBSEQUENT ACTIVITIES IN, I BELIEVE THE—

THE COURT: WELL, I CAN—

MR. KING:—1980'S.

THE COURT: I CAN UNDERSTAND HOW THEY WOULD WANT CONGRESS TO CHANGE THE LAW TO CLARIFY WHAT THEY BELIEVED WAS THEIR RIGHT ANYWAY.

MR. KING: WHAT MIGHT HAVE HAPPENED, YOUR HONOR, IS THAT THEIR—AS YOU PROBABLY WELL KNOW FROM OUR PRIOR BRIEFINGS IN THIS CASE, THERE ARE BASICALLY THREE WAYS TO HAVE A PUBLIC PERFORMANCE.

ONE IS A PUBLIC PLACE. AND IF YOU USE A PUBLIC PLACE, IT DOESN'T MATTER HOW YOU GET IT THERE. WHETHER YOU TRANSMIT IT, SHOW IT ON A TELEVISION SCREEN, OR A MOVIE THEATER, IT'S A PUBLIC PERFORMANCE.

THE COURT: YES.

MR. KING: THE SECOND IS A PUBLIC AUDIENCE, AND THIRD IS THIS TRANSMISSION CONCEPT.

THE COURT: NOW, WAIT A MINUTE. WHAT'S THE DIFFERENCE BETWEEN A PUBLIC PERFORMANCE AND A PUBLIC AUDIENCE?

MR. KING: A PUBLIC PLACE IS THAT IT'S A PUBLIC—I BELIEVE AS THE LAW WILL SHOW YOU, IS THAT IT'S A PUBLIC PERFORMANCE WHETHER THERE IS ONE PERSON THERE OR A HUNDRED PERSONS THERE.

A PUBLIC AUDIENCE CAN BE DONE IN A PUBLIC—PRIVATE PLACE—

THE COURT: OH.

MR. KING:—SUCH AS YOUR HOME BEING OPENED UP TO WATCH TELEVISION.

THE COURT: OH, I SEE. ALL RIGHT.

MR. KING: AND THE THIRD ONE IS THIS TRANSMISSION CONCEPT, WHICH IS WHERE WE FIND THE EXCEPTION TO THE TRANSMISSION.

THE CONGRESS AT THAT POINT NOTED THAT WHEN YOU TRANSMIT SOMETHING TO A "PRIVATE LODGING"—WAS THEIR TERM—OF A HOTEL ROOM, WE ARE NOT GOING TO COUNT THAT AS A VIOLATION OF THE LAW. WE ARE GOING TO ACCEPT IT.

AND IT'S NOT THAT TRANSMISSION WE'RE MEANING.

IF, IN FACT, A HOTEL WAS A PUBLIC PLACE, THAT STATUTORY EXEMPTION WOULD BE MEANINGLESS, BECAUSE YOU WEREN'T CATCHING THEM UNDER THEIR TRANSMISSION CONCEPT. YOU WERE CATCHING THEM UNDER THE PUBLIC PLACE CONCEPT.

THE LAW CONSISTENTLY CAN BE INTERPRETED ONLY TO MEAN—DEFENDANTS—COUNTER-DEFENDANTS—HAD TO KNOW GIVEN THE LEGISLATIVE HISTORY AND THE EXTENSIVE EFFORTS THEY MADE TO INFLUENCE HOW THAT LAW WAS WRITTEN, THAT A HOTEL ROOM WAS A PRIVATE PLACE.

IT'S CALLED A PRIVATE LODGING IN THE LAW. IT'S CALLED A PRIVATE LODGING AND A PRIVATE PLACE THROUGHOUT.

SO WE KNOW THEY ADMIT IT IN ANOTHER CASE—THE AVECO CASE.

WE KNOW THAT THE LAW TELLS YOU TO TAKE PRIVATE LODGING, AND THAT THEY PARTICIPATED IN THAT LAW'S DEVELOPMENT AND, IN FACT, DEPOSED PART OF IT—THAT LAWSUIT WHERE THAT VERY REFERENCE IS MADE.

THAT GIVES US ENOUGH AT LEAST TO WANT TO EXPLORE THE ISSUE AND YET WE'VE HAD NO EXPLORATION OF IT, BECAUSE WE HAVE BEEN ABSOLUTELY STONEWALLED IN DISCOVERY.

WE HAVE NOT GOTTEN ANY OF THE TRADE ASSOCIATION DOCUMENTS. WE HAVE NOT GOTTEN ANY COMMUNICATION BETWEEN THE DEFENDANTS.

WE HAVE NOT GOTTEN COMMUNICATION WITH THE LICENSE EXCEPT FOR A FEW WITH R.C.A. WE HAVE NOT SEEN ANY OTHER SUITS OR THREATS OF SUITS.

THE COURT: WELL, WHAT DO YOU EXPECT TO GAIN BY THIS COUNTER-CLAIM?

MR. KING: YOUR HONOR, MY CLIENT IN HIS AFFIDAVIT INDICATED THAT HE ATTEMPTED TO MARKET THE SYSTEM TO OTHER HOTELS—

THE COURT: YES.

MR. KING:—BECAUSE HE THOUGHT IT WAS A SYSTEM WHICH WAS COMPETITIVE.

THE COURT: YES.

MR. KING: HE ATTEMPTED TO GET INVOLVED IN THE MARKET PLACE. IT WAS A METHOD OF DELIVERY OF MOVIES AS WELL AS OTHER INFORMATION THAT COULD BE ON TAPE OR DISC.

HE WAS EVENTUALLY STOPPED. PEOPLE WERE SAYING, "YOU'RE SUED. WE'RE AFRAID WE'LL GET SUED." AND IT, IN FACT, STOPPED THE DEVELOPMENT OF THIS MARKET AND STOPPED THE DEVELOPMENT OF BUSINESS.

THE COURT: AND SO IF THE PLAINTIFFS KNEW THAT THEY DIDN'T HAVE ANY RIGHT TO STOP THIS AND THREATENED TO SUE, WHY THAT WOULD BE AN ANTI-TRUST VIOLATION?

MR. KING: IT WOULD BE AN ANTI-TRUST VIOLATION IN THE FACT THAT THIS CIRCUIT IN RICKARDS VERSUS CANINE EYE SIGHT—IF IT'S AN UNPATENTED CLAIM,—

THE COURT: YES. BUT IF THEY THOUGHT THEY HAD A VALID RIGHT TO PREVENT THE HOTEL OWNERS FROM DOING WHAT THEY HAVE DONE, THEY THEY HAVE A RIGHT TO THREATEN TO SUE UNDER NOERR AGAINST PENNINGTON.

MR. KING: I WOULD NOT DISAGREE WITH THAT WHERE IT BECOMES A PRIOR ISSUE OF FACT.

DID THEY HAVE A VALID CLAIM? DID THEY BELIEVE THEY HAD A VALID CLAIM?

THE COURT: YES.

MR. KING: AND BASED UPON THE INFORMATION WE HAVE WHERE THEY'VE ADMITTED IN OTHER CASES THAT HOTELS ARE PRIVATE, VERSUS WHAT THEIR CLAIM WAS IN OUR LAWSUIT, WHICH WAS THAT HOTEL ROOMS WERE PUBLIC, AND BASED UPON LEGISLATIVE HISTORY, WE CERTAINLY HAVE A RIGHT TO EXPLORE THAT ISSUE, AND NOT BE THROWN OUT JUST BEFORE WE HAVE HAD THAT OPPORTUNITY FOR DISCOVERY.

THAT'S ALL WE SEEK.

THE COURT: WELL, I'M GOING TO HAVE TO STUDY THE LAW AGAIN, I GUESS.

WHAT ABOUT THAT, MR. KROFT? IS IT A SUBJECTIVE MATTER OR IS IT A MATTER OF LAW, WHETHER OR NOT YOU HAVE A CLAIM THAT YOU CAN BELIEVE TO BE VALID?

MR. KROFT: YOUR HONOR, IN THIS CIRCUIT, I BELIEVE, IT IS AN OBJECT TEST. IT WILL BE FOUND BY THE NINTH CIRCUIT TO BE AN OBJECTIVE TEST.

THE COURT: WILL BE?

MR. KROFT: YES, YOUR HONOR.

THE COURT: WHAT ABOUT THIS CASE THAT—

MR. KROFT: CLIPPER EXXPRESS?

THE COURT: CLIPPER EXXPRESS.

MR. KROFT: CLIPPER EXXPRESS IS NOT DISPOSITIVE, YOUR HONOR.

THERE IS A CASE AND I'D LIKE TO GIVE A COPY OF IT TO THE COURT AND TO COUNSEL CALLED COKE-COLA COMPANY VERSUS OVERLAND, INC.

THE COURT: IT'S NOT IN YOUR BRIEF?

MR. KROFT: I APOLOGIZE TO THE COURT. WE DID NOT CITE THIS CASE IN OUR BRIEF. I NOTICED IT HAVING BEEN CITED IN ONE OF THE CASES RELIED UPON BY THE DEFENDANTS.

THE COURT WILL NOT THAT AT PAGE 1257 OF THE COKE-COLA CASE, THE NINTH CIRCUIT ADDRESSES THE QUESTION THAT WAS THE FOCUS OF THE SEVENTH AND THE FIFTH CIRCUIT CASES UPON WHICH THE DEFENDANT RELIES.

AT PAGE 1257, YOUR HONOR, IN FOOTNOTE 17, THE NINTH CIRCUIT EXPRESSES GREAT SCEPTICISM THAT A SUCCESSFUL PRIOR SUIT CAN EVER BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE COURT: WHERE ARE WE, PLEASE? ON 12—

MR. KROFT: WE'RE ON PAGE 1257.

THE COURT: YES, I'M THERE.

MR. KROFT: FOOTNOTE 17.

THE COURT: OH, YES.

MR. KROFT: NOW, THAT'S IMPORTANT, YOUR HONOR, BECAUSE UNDER THE SUBJECTIVE TEST THAT IS ADVANCED BY COUNSEL, EVEN A SUCCESSFUL PRIOR LAWSUIT COULD BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST LITIGATION.

THAT'S WHAT THE FIFTH CIRCUIT SPECIFICALLY HELD IN THE BURLINGTON CASE. AND IT'S ALSO WHAT THE SEVENTH CIRCUIT HELD IN THE GRIP-PAK CASE.

BUT THE NINTH CIRCUIT SAYS, WE WON'T ALLOW THAT—IN THIS FOOTNOTE 17.

THE COURT: WELL, WAIT A MINUTE. THERE IS NO CASE SUPPORTING THE PROPOSITION THAT THE BRINGING OF MERITORIOUS SUITS CAN CONSTITUTE SHAM SUITS.

MR. KROFT: YES, YOUR HONOR.

THE COURT: AND YOUR'S WAS NOT A MERITORIOUS SUIT.

MR. KROFT: YOUR HONOR, OUR'S WAS OBJECTIVELY MERITORIOUS IN THE SENSE THAT IT RAISED VERY CLOSE ISSUES—

THE COURT: I SEE.

MR. KROFT:—OF FIRST IMPRESSION.

THE COURT: I SEE.

MR. KROFT: AND IF—

THE COURT: YOU DON'T HAVE TO WIN IN ORDER TO HAVE A MERITORIOUS SUIT?

MR. KROFT: CORRECT, YOUR HONOR, IN OUR JUDGMENT.

IF YOU ACCEPT THE PROPOSITION THAT DEFENDANT ADVANCES HERE, THAT THE TEST IS SUBJECTIVE, THEN THE COURT WILL HAVE TO BE ACCEPTING THE PROPOSITION THAT EVEN A WINNING PRIOR LAWSUIT, IF BROUGHT FOR BAD MOTIVES, WOULD BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE NINTH CIRCUIT TELLS US IN THE COKE-COLA CASE WE ARE NOT TO ALLOW THAT.

THE COURT: WELL—

MR. KROFT: AND THE REASON FOR THAT, YOUR HONOR, AGAIN IS THE FIRST AMENDMENT VALUES THAT THE WHOLE NOERR-PENNINGTON DOCUMENT IS BASED UPON.

THE COURT: WELL, THEY SAID THAT WE DON'T THINK THAT BRINGING A MERITORIOUS SUIT CAN BE A SHAM.

MR. KROFT: YES, YOUR HONOR. IN THAT CASE I THINK—

THE COURT: DID THEY PREVAIL IN THAT MERITORIOUS SUIT?

MR. KROFT: YES, YOUR HONOR.

THE COURT: WELL, YOU SEE—DOESN'T THAT MAKE A DIFFERENCE?

MR. KROFT: IT MAY BE—

THE COURT: SUPPOSE YOU BRING AN UNMERITORIOUS SUIT FOR NOT THINKING THAT IT WAS A VALID SUIT? THAT'S THE ISSUE HERE; ISN'T IT?

MR. KROFT: YOUR HONOR, THAT'S THE—THAT IS WHAT DEFENDANTS ARE TRYING TO MAKE THE ISSUE.

THE COURT: YES. YES.

MR. KROFT: AND I WOULD ALSO POINT OUT TO THE COURT—

THE COURT: WELL, BUT DOES COKE-COLA DISPOSE OF THAT?

MR. KROFT: NO. COKE-COLA DOES NOT DISPOSE OF IT.

BUT WHAT—LET ME TRY AGAIN, YOUR HONOR.

UNDER THE SUBJECTIVE TEST IN THE OTHER CIRCUITS—THE FIFTH CIRCUIT AND THE SEVENTH CIRCUIT—A WINNING LAWSUIT CAN BE THE BASIS FOR AN ANTI-TRUST—SUBSEQUENT ANTI-TRUST CLAIM IF YOU BROUGHT IT FOR THE WRONG REASONS.

THE NINTH CIRCUIT SAYS, SO TO SPEAK AND NOT THAT EXTREME, A WINNING LAWSUIT—

THE COURT: YES.

MR. KROFT:—YOU CAN BE THE BASIS FOR AN ANTI-TRUST CLAIM.

THE COURT: THE NINTH CIRCUIT TURNED ITS BACK ON THAT.

MR. KROFT: THAT'S CORRECT.

THE COURT: BUT—

MR. KROFT: THE FIFTH CIRCUIT, BY THE WAY, WAS A VERY SHARPLY DIVIDED PANEL, AND THE MAJORITY DID CONFESS THAT WE WERE NOT TO ALLOW A WINNING LAWSUIT TO BE THE BASIS OF A SUBSEQUENT ANTI-TRUST CLAIM ON THE SUBJECTIVE BASIS.

THEN WE HAVE TO CONFESS THAT IT WOULD MAKE SENSE TO DRAW A LINE NOT JUST OF WHETHER YOU WON OR LOST, BUT WHETHER YOU HAD AN OBJECTIVELY MERITORIOUS CLAIM, WHICH, OF COURSE, IS

EXACTLY WHAT THE NINTH CIRCUIT HAS DONE IN THE RULE 11 CONTEST.

THE NINTH CIRCUIT HAS SAID UNDER RULE 11, IF YOU HAVE AN OBJECTIVELY MERITORIOUS CLAIM THAT IS BROUGHT, REASONABLY BASED ON FACTS AND THE LAW, IT CANNOT BE BROUGHT FOR IMPROPER PURPOSE AS A MATTER OF LAW.

THE COURT: WELL, YOUR ADVERSARY SAYS THAT THE CLIPPER CASE WAS DIFFERENT.

MR. KROFT: THE CLIPPER CASE WAS DECIDED BEFORE THE COKE-COLA CASE.

AND THE CLIPPER CASE DID NOT HAVE THE ISSUE PRESENTED SQUARELY TO IT, YOUR HONOR. I THINK IF YOU READ THE CLIPPER CASE, YOU WILL CONCLUDE THAT WHATEVER THE NINTH CIRCUIT MAY HAVE SAID THERE, THE UNDERLYING CLAIMS, IN FACT, WERE OBJECTIVELY SHAM. THEY HAD NO REASONABLE BASIS.

THE NINTH CIRCUIT IN THE CLIPPER EXXPRESS CASE WAS NOT ASKED TO DETERMINE WHETHER AN OBJECTIVELY MERITORIOUS LAWSUIT, SUCH AT THIS COPYRIGHT CASE, COULD EVER BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE COURT: WELL, ALL RIGHT. I'LL TAKE IT UNDER SUBMISSION.

I'M TROUBLED BY THIS. IN HARKING BACK, I'M CONVINCED THAT THIS WAS A CLOSE ISSUE. I KNOW THE NINTH CIRCUIT—DIDN'T THE NINTH CIRCUIT HAVE IT ARGUED TWICE?

MR. KROFT: WE ARGUED IT TO THE JUDGE OF THE NINTH CIRCUIT, YOUR HONOR, AND IT TOOK HIM TWO YEARS TO DECIDE IT.

THE COURT: I KNOW THE CIRCUIT HAD TROUBLE WITH IT JUST AS I HAD TROUBLE WITH IT.

AND I THINK IT WOULD BE MOST UNFORTUNATE UNDER NOERR AGAINST PENNINGTON TO SUBJECT THE PLAINTIFFS TO AN ANTI-TRUST LITIGATION UNDER THESE CIRCUMSTANCES.

BUT I'M OBLIGED TO ADHERE TO THE LAW.

I'LL TAKE IT UNDER SUBMISSION AND SEE WHETHER OR NOT IT'S A FACTUAL MATTER AS TO WHETHER THE PLAINTIFF WAS IN GOOD FAITH IN BRINGING THIS ACTION, OR WHETHER THEY KNEW THAT THEY DIDN'T HAVE A CHANCE AND WERE SIMPLY TRYING TO HARASS THE DEFENDANT.

MR. KROFT: YOUR HONOR, MAY I MAKE A COUPLE OF COMMENTS TO THE COURT FOR ITS CONSIDERATION WHEN HE DOES TAKE THIS CASE UNDER SUBMISSION?

I'D LIKE TO BRING THE COURT'S ATTENTION TO ONE MORE CASE CALLED ADVISOR, INC. VERSUS PACIFIC TELEPHONE. FOUND 640 F2ND 1107.

THE COURT: WHAT CIRCUIT?

MR. KROFT: THAT'S THE NINTH CIRCUIT, YOUR HONOR.

AND THE COURT WILL FIND THERE THAT—I THINK THE COURT—AGAIN, WITHOUT HAVING TO FACE THE ISSUES AS THEY'RE SQUARELY BEFORE THE COURT—NEVERTHELESS, I BELIEVE APPLIED AN OBJECTIVE TEST FINDING THAT THE UNDERLYING CASES HAD OBJECTIVE MERIT, AND THAT WAS ALL THE NINTH CIRCUIT NEEDED TO KNOW.

ON THE ISSUE—IF THE COURT WERE TO CONCLUDE THIS QUESTION WAS SUBJECTIVE, I WOULD LIKE TO POINT OUT TO THE COURT THAT THERE IS ABSOLUTELY NO EVIDENCE IN THOSE RECORDS.

THE COURT: WELL, THAT'S WHAT HE WANTS TO FIND. HE WANTS TO SEE BY DISCOVERY IF THEY CAN

COME UP WITH A RATIONALE UPON WHICH THEY CAN HANG THEIR CONTENTION THAT YOU KNEW THAT YOU DIDN'T HAVE A CHANCE.

ISN'T THAT RIGHT?

MR. KING: YOUR HONOR—

MR. KROFT: YES, YOUR HONOR. AND I BELIEVE THERE IS EVIDENCE IN THE RECORD.

THE COURT: WELL, I'M SURE YOU DO.

(LAUGHTER.)

MR. KROFT: I SUBMITTED TO THE COURT IN CONNECTION WITH THIS ISSUE THAT ITS AN IMPOSSIBILITY FOR ANYBODY EVER TO KNOW IN ADVANCE THAT AN OBJECTIVELY MERITORIOUS CLAIM RAISING VERY CLOSE ISSUES OF FIRST IMPRESSION WAS A LOSER.

AND THAT'S WHAT THE DEFENDANTS ARE ASKING THIS COURT TO CONCLUDE.

THE FACT THAT THIS CASE WAS VERY CLOSE PRECLUDES ANY POSSIBILITY OF THE PLAINTIFFS HAVING KNOWN IN ADVANCE THAT THEY HAD AN UNMERITORIOUS CLAIM.

THE COURT: WELL, I'M INCLINED TO THINK SO TOO. THE PLAINTIFF—THE DEFENDANT COUNTERCLAIMANTS ARE GOING TO HAVE A SUBSTANTIAL UPHILL BATTLE.

BUT I BELIEVE THAT I MUST FIND OUT WHETHER OR NOT I'M OBLIGED TO GIVE THEM A CHANCE.

MR. KING: WOULD YOU LIKE US TO FILE SUPPLEMENTS BASED ON THE ISSUE OF FACT VERSUS—

THE COURT: I WOULD APPRECIATE THAT.

IS THAT ALL RIGHT, MR. KROFT?

MR. KROFT: YES, SIR.

THE COURT: ALL RIGHT. I'LL TAKE IT UNDER SUBMISSION. THE PLAINTIFFS WILL FILE FIRST.

TWENTY DAYS ALL RIGHT?

MR. KROFT? DO YOU MEAN MR. KING?

THE COURT: THE DEFENDANT. I'M SORRY.

MR. KING WILL FILE FIRST.

MR. KING: YOU WANT US TO FILE BEFORE THERE MOTION?

THE COURT: YES.

MR. KING: THEIR MOTION?

THE COURT: YES.

TWENTY, TWENTY AND TEN.

AND MR. KROFT, WILL YOU PROVIDE ME A TRANSCRIPT OF THIS MORNING'S HEARING?

MR. KROFT: YES, YOUR HONOR, I WILL DO SO.

THE COURT: ALL RIGHT, GENTLEMEN.

MR. KROFT: THANK YOU, YOUR HONOR.

MR. KING: THANK YOU, YOUR HONOR.

THE COURT: SUBMITTED.

(PROCEEDINGS ADJOURNED.)

[Certificate of Service omitted in this printing/cb

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
HONORABLE WILLIAM P. GRAY, JUDGE PRESIDING

CV-83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., ET AL.

PLAINTIFFS,

VS.

PROFESSIONAL REAL ESTATE INVESTORS, INC., AND
KENNETH F. IRWIN,

DEFENDANTS.

AND RELATED COUNTERCLAIM

CERTIFIED
COPY

TRANSCRIPT PROCEEDINGS
PASADENA, CALIFORNIA
DECEMBER 18, 1989

CANDEE MARSH
OFFICIAL COURT REPORTER
432 U.S. COURTHOUSE
312 NORTH SPRING STREET
LOS ANGELES, CA. 90012
(213) 625-2881

APPEARANCES:

FOR THE PLAINTIFF:

ROSENFELD, MEYER & SUSMAN
BY: STEPHEN A. KROFT, ESQUIRE
JAMES L. SEAL, ESQUIRE
9601 WILSHIRE BOULEVARD
BEVERLY HILLS, CALIFORNIA 90210
(213) 858-7700

FOR THE DEFENDANT:

COLLIER, SHANNON & SCOTT
BY: JEFFREY W. KING, ESQUIRE
1055 THOMAS JEFFERSON STREET, N.W.
WASHINGTON, D.C. 20007
(202) 342-8510

INDEX

HEARING:

1. PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT AS TO FIRST, SECOND, THIRD COUNTERCLAIMS AND FOR DISMISSAL OF REMAINING PENDENT STATE CLAIMS.

[4] LOS ANGELES, CALIFORNIA; MONDAY, DECEMBER
18, 1989

(MORNING SESSION)

THE CLERK: ITEM NUMBER FOUR, CIVIL 83-2594, COLUMBIA PI COMPANY, ET AL. VERSUS PROFESSIONAL REAL ESTATE INVESTORS.

COUNSEL, YOUR APPEARANCES, PLEASE.

MR. KING: GOOD MORNING, YOUR HONOR. MY NAME IS JEFFREY KING. I'M HERE FOR THE COUNTER-PLAINTIFF'S PROFESSIONAL ESTATE INVESTORS, INC. AND OTHERS.

MR. KROFT: GOOD MORNING, YOUR HONOR. STEPHEN KROFT AND SEAL FROM ROSENFELD, MEYER & SUSMAN FOR THE PLAINTIFFS.

THE COURT: ALL RIGHT. IT'S YOUR MOTION; ISN'T IT?

MR. KROFT: NO, YOUR HONOR. IT'S THE COUNTER-DEFENDANT'S MOTION.

THE COURT: OH, YES. WELL, LET'S SEE.

I'M GOING TO HAVE TO REFRESH MY RECOLLECTION AS TO THE INTERROGATORY SITUATION. THIS IS COLUMBIA PICTURES' MOTION FOR SUMMARY JUDGMENT; IS THAT RIGHT, MR. KROFT?

MR. KROFT: YES, YOUR HONOR.

THE COURT: THAT'S YOU?

MR. KROFT: THAT'S ME, YOUR HONOR.

THE COURT: ALL RIGHT. LET ME TELL YOU WHAT I THINK ABOUT IT.

THE FIRST QUESTION IS WHETHER THIS ACTION WAS A SHAM AS A MATTER OF LAW. I DO NOT—I'M CONVINCED THAT IT WAS NOT A [5] SHAM.

I SAID IN THE EARLIER PROCEEDINGS THAT THIS IS A VERY CLOSE CASE. MY OWN NOTES THAT I MADE BEFORE THE HEARING OF MARCH 1986, ARE THAT I HAVE GRAVE DOUBT THAT THE DEFENDANTS WOULD BE ABLE TO SHOW BAD FAITH. THE CIRCUIT COURT OF APPEALS HAD TROUBLE WITH THE CASE TOO.

AND I'M CONVINCED THAT AS A MATTER OF LAW, IT WAS NOT A SHAM. AND WHETHER THE PLAINTIFFS THOUGH THEY COULD RECOVER, I THINK IS BESIDE THE POINT. THIS IS A MATTER OF LAW.

THEREFORE, I THINK THAT NOERR-PENNINGTON APPLIES. AND THEREFORE, AS I SAY, I'M DISPOSED TO GRANT A MOTION FOR SUMMARY JUDGMENT TO DISMISS COUNTS ONE, TWO, AND THREE, I THINK IT IS, OF COUNTERCLAIM.

THE DEFENDANTS CLAIM DAMAGES BECAUSE COLUMBIA PICTURES O PLAINTIFF WOULD NOT LICENSE THEM, AS I UNDERSTAND IT, TO LEASE THE VCR'S TO THE PEOPLE THAT ARE GUESTS IN THEIR HOTELS.

WELL, I THINK THERE ARE TWO ANSWERS TO THAT. IN THE FIRST PLACE, WE NOW KNOW THEY DIDN'T NEED A LICENSE.

SECONDLY, IF THE PLAINTIFFS THOUGHT THAT THEY DID NEED A LICENSE AND WERE DISPOSED NOT TO ALLOW THOSE LEASES TO PEOPLE TO SHOW THESE THINGS IN THEIR HOTEL ROOMS WITHOUT PAYING A ROYALTY CAN WELL UNDERSTAND HOW THEY WOULDN'T DO IT UNDER NOERR. I CAN UNDERSTAND HOW THEY WOULD NOT BE DISPOSED TO GRANT TO THE DEFENDANT LICENSE.

AND AS FAR AS THEIR THREATENING TO SUE OTHER HOTEL OWNERS [6] DID LEASE THOSE VCR'S FOR USE IN THE HOTEL ROOMS, IF THEY HAD A RIGHT TO SUE, THEY HAD A RIGHT TO THREATEN TO SUE. I THINK NOERR AGAIN PENNINGTON COVERS THAT ALSO.

I THINK THAT THE DEFENDANTS SHOULD HAVE BEEN SATISFIED WITH THE VICTORY THAT THEY HAD RATHER THAN TRYING TO PREVAIL UNDER THE CROSS-COMPLAINT, WHICH I DID NOT BELIEVE TO BE MERITORIOUS.

AND THEREFORE, I'M DISPOSED TO DISMISS THE FEDERAL ACTION TO DISMISS THE PENDENT ACTIONS BECAUSE THE FEDERAL ACTIONS ARE GONE.

ALL RIGHT. I THINK THE DEFENDANTS ARE UP.

MR. KING: YOUR HONOR, THE NINTH CIRCUIT IN CLIPPER EXXPRESS SAID THAT A SHAM IS A FACTUAL ISSUE, NOT A MATTER OF LAW ISSUE.

THE COURT: IT DID? IN WHAT CASE?

MR. KING: CLIPPER EXXPRESS. IT'S AT 690 F2ND 1240. I BELIEVE IT'S AT PAGE 1253, BUT I'M NOT SURE. I'D HAVE TO LOOK.

THE COURT: WELL, GIVE ME THE VOLUME—GIVE ME THE CITATION AGAIN.

MR. KING: 690 F2ND.

THE COURT: 790?

MR. KING: 690, YOUR HONOR.

THE COURT: 690.

MR. KING: F2ND 1240, NINTH CIRCUIT, 1982. AND I BELIEVE IT'S AT PAGE 1253.

THE COURT: I'M SURPRISED AT THAT. THE STUDY THAT I MADE INDICATES THAT IT'S A QUESTION OF LAW.

I'LL INVITE THE PLAINTIFFS TO RESPOND TO THAT.

[7] ALL RIGHT. GO AHEAD.

MR. KING: IT'S AT PAGE 1253. IT SAYS "WHETHER SOMETHING GENUINE EFFORT TO INFLUENCE GOVERNMENTAL ACTION"—

THE COURT: ONCE MORE. ONCE MORE. I DIDN'T HEAR YOU.

MR. KING: I'M SORRY. IT'S AT PAGE 1253, OUR HONOR, CLIPPER EXXPRESS.

IT STATES "WHETHER SOMETHING IS A GENUINE EFFORT TO INFLUENCE GOVERNMENTAL ACTION OR MERE SHAM IS A QUESTION OF FACT."

I WOULD LIKE TO SUGGEST THAT THERE ARE FACTS HERE TO BE DEVELOPED. AND THERE ARE FACTS HERE, BECAUSE I THINK WHAT WE'RE GETTING CONFUSED WITH IS WHETHER THERE IS AN IMPROPER ANTI-TRUST OR WHETHER THEY HAD KNOWLEDGE.

WE DO NOT CONTEND THAT—

THE COURT: WHETHER THEY HAD KNOWLEDGE OF WHAT?

MR. KING: KNOWLEDGE THAT THEIR CLAIMS ARE BASELESS.

WE HAVE INFORMATION THAT THEY MAY HAVE BELIEVED THAT TO BE SO.

IN ANOTHER CASE, WHICH INVOLVED THE SAME COUNSEL AND LAW COLUMBIA PICTURES VERSUS AVECO, THEY CLAIMED THE HOTEL WAS A PRIVATE PLACE AND ADMITTED IT TO BE SO.

CERTAINLY, IT'S AN INCONSISTENCY WORTH EXPLORING.

SECONDLY, DURING THE COPYRIGHT ACT LEGISLATIVE HISTORY, CONTINUAL REFERENCES TO THE CONCEPT OF PRIVATE LODGING AREAS OF ONE HOTEL.

DEFENDANTS ARGUE THAT DOESN'T APPLY TO THEIR CLAIMS, BE [8] IT'S A DIFFERENT SECTION.

BUT, IN FACT, THE ACT NOWHERE TALKS ABOUT HOTEL ROOMS AS BEING ANYTHING BUT PRIVATE. IN FACT—

THE COURT: WELL, THIS WAS WHEN THEY WERE TRYING TO GET CONGRESS TO CHANGE THE LAW; WASN'T IT?

MR. KING: THIS IS WHEN THEY WERE—THIS IS DURING THE LEGISLATIVE HISTORY OF BOTH THE INITIAL ACT, WHICH IS WHAT WAS _____ UNDER THE 1976 ACT, AND ALSO UNDER SUBSEQUENT ACTIVITIES IN, I BELIEVE THE—

THE COURT: WELL, I CAN—

MR. KING:—1980'S.

THE COURT: I CAN UNDERSTAND HOW THEY WOULD WANT CONGRESS TO CHANGE THE LAW TO CLARIFY WHAT THEY BELIEVED WAS THEIR RIGHT ANYWAY.

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THE COURT: YES.

MR. KING: THE SECOND IS A PUBLIC AUDIENCE, AND THIRD IS THIS TRANSMISSION CONCEPT.

THE COURT: NOW, WAIT A MINUTE. WHAT'S THE DIFFERENCE BETWEEN A PUBLIC PERFORMANCE AND A PUBLIC AUDIENCE?

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A PUBLIC AUDIENCE CAN BE DONE IN A PUBLIC—PRIVATE PLACE.

THE COURT: OH.

MR. KING:—SUCH AS YOUR HOME BEING OPENED UP TO WATCH TELEVISION.

THE COURT: OH, I SEE. ALL RIGHT.

MR. KING: AND THE THIRD ONE IS THIS TRANSMISSION CONCEPT, WHICH IS WHERE WE FIND THE EXCEPTION TO THE TRANSMISSION.

THE CONGRESS AT THAT POINT NOTED THAT WHEN YOU TRANSMIT SOMETHING TO A "PRIVATE LODGING"—WAS THEIR TERM—OF A HOTEL WE ARE NOT GOING TO COUNT THAT AS A VIOLATION OF THE LAW. WE ARE TO ACCEPT IT.

AND IT'S NOT THAT TRANSMISSION WE'RE MEANING.

IF, IN FACT, A HOTEL WAS A PUBLIC PLACE, THAT STATUTORY EXEMPTION WOULD BE MEANINGLESS, BECAUSE YOU WEREN'T CATCHING THEM THEIR TRANSMISSION CONCEPT. YOU WERE CATCHING THEM UNDER THE PUB PLACE CONCEPT.

THE LAW CONSISTENTLY CAN BE INTERPRETED ONLY TO MEAN—DEFENDANTS—COUNTER-DEFENDANTS—HAD TO KNOW GIVEN THE LEGISLATIVE HISTORY AND THE EXTENSIVE EFFORTS THEY MADE TO INFLUENCE HOW THAT WAS WRITTEN, THAT A HOTEL ROOM WAS A PRIVATE PLACE.

IT'S CALLED A PRIVATE LODGING IN THE LAW. IT'S CALLED [10] A PRIVATE LODGING AND A PRIVATE PLACE THROUGHOUT.

SO WE KNOW THEY ADMIT IT IN ANOTHER CASE—THE AVECO CASE.

WE KNOW THAT THE LAW TELLS YOU TO TAKE PRIVATE LODGING, THAT THEY PARTICIPATED IN THAT

LAW'S DEVELOPMENT AND, IN FACT, BE PART OF IT—THAT LAWSUIT WHERE THAT VERY REFERENCE IS MADE.

THAT GIVES US ENOUGH AT LEAST TO WANT TO EXPLORE THE ISSUE. YET WE'VE HAD NO EXPLORATION OF IT, BECAUSE WE HAVE BEEN ABSOLUTELY STONE-WALLED IN DISCOVERY.

WE HAVE NOT GOTTEN ANY OF THE TRADE ASSOCIATION DOCUMENTS. WE HAVE NOT GOTTEN ANY COMMUNICATION BETWEEN THE DEFENDANTS.

WE HAVE NOT GOTTEN COMMUNICATION WITH THE LICENSE EXCEPT FEW WITH R.C.A. WE HAVE NOT SEEN ANY OTHER SUITS OR THREATS OF SUITS.

THE COURT: WELL, WHAT DO YOU EXPECT TO GAIN BY THIS COUNTER-CLAIM?

MR. KING: YOUR HONOR, MY CLIENT IN HIS AFFIDAVIT INDICATED THAT HE ATTEMPTED TO MARKET THE SYSTEM TO OTHER HOTELS—

THE COURT: YES.

MR. KING:—BECAUSE HE THOUGHT IT WAS A SYSTEM WHICH WAS COMPETITIVE.

THE COURT: YES.

MR. KING: HE ATTEMPTED TO GET INVOLVED IN THE MARKET PLACE. IT WAS A METHOD OF DELIVERY OF MOVIES AS WELL AS OTHER INFORMATION WHICH COULD BE ON TAPE OR DISC.

[11] HE WAS EVENTUALLY STOPPED. PEOPLE WERE SAYING, "YOU'RE WE'RE AFRAID WE'LL GET SUED." AND IT, IN FACT, STOPPED THE DEVELOPMENT OF THIS MARKET AND STOPPED THE DEVELOPMENT OF BUSINESS.

THE COURT: AND SO IF THE PLAINTIFFS KNEW THAT THEY DIDN'T HAVE ANY RIGHT TO STOP THIS AND

THREATENED TO SUE, WHY THAT WOULD ANTI-TRUST VIOLATION?

MR. KING: IT WOULD BE AN ANTI-TRUST VIOLATION IN THE FACT THAT THIS CIRCUIT IN RICKARDS VERSUS CANINE EYE SIGHT—IF IT'S UNPATENTED CLAIM—

THE COURT: YES. BUT IF THEY THOUGHT THEY HAD A VALID RIGHT TO PREVENT THE HOTEL OWNERS FROM DOING WHAT THEY HAVE DONE, THEN HAVE A RIGHT TO THREATEN TO SUE UNDER NOERR AGAINST PENNINGTON.

MR. KING: I WOULD NOT DISAGREE WITH THAT WHERE IT BECOMES PRIOR ISSUE OF FACT.

DID THEY HAVE A VALID CLAIM? DID THEY BELIEVE THEY HAD A VALID CLAIM?

THE COURT: YES.

MR. KING: AND BASED UPON THE INFORMATION WE HAVE WHERE THEY'VE ADMITTED IN OTHER CASES THAT HOTELS ARE PRIVATE, VERSUS WHETHER THEIR CLAIM WAS IN OUR LAWSUIT, WHICH WAS THAT HOTEL ROOMS WERE PRIVATE AND BASED UPON LEGISLATIVE HISTORY, WE CERTAINLY HAVE A RIGHT TO EXPLORE THAT ISSUE, AND NOT BE THROWN OUT JUST BEFORE WE HAVE HAD OPPORTUNITY FOR DISCOVERY.

THAT'S ALL WE SEEK.

THE COURT: WELL, I'M GOING TO HAVE TO STUDY THE LAW [12] AGAIN, I GUESS.

WHAT ABOUT THAT, MR. KROFT? IS IT A SUBJECTIVE MATTER OR IS IT A MATTER OF LAW, WHETHER OR NOT YOU HAVE A CLAIM THAT YOU CAN BELIEVE TO BE VALID?

MR. KROFT: YOUR HONOR, IN THIS CIRCUIT, I BELIEVE, IT OBJECT TEST. IT WILL BE FOUND BY THE NINTH CIRCUIT TO BE AN OBJECT TEST.

THE COURT: WILL BE?

MR. KROFT: YES, YOUR HONOR.

THE COURT: WHAT ABOUT THIS CASE THAT—

MR. KROFT: CLIPPER EXXPRESS?

THE COURT: CLIPPER EXXPRESS.

MR. KROFT: CLIPPER EXXPRESS IS NOT DISPOSITIVE, YOUR HONOR.

THERE IS A CASE AND I'D LIKE TO GIVE A COPY OF IT TO THE AND TO COUNSEL CALLED COKE-COLA COMPANY VERSUS OVERLAND, INC.

THE COURT: IT'S NOT IN YOUR BRIEF?

MR. KROFT: I APOLOGIZE TO THE COURT. WE DID NOT CITE TO CASE IN OUR BRIEF. I NOTICED IT HAVING BEEN CITED IN ONE OF THE RELIED UPON BY THE DEFENDANTS.

THE COURT WILL NOT THAT AT PAGE 1257 OF THE COKE-COLA CASE, THE NINTH CIRCUIT ADDRESSES THE QUESTION THAT WAS THE FOCUS OF THE SEVENTH AND THE FIFTH CIRCUIT CASES UPON WHICH THE DEFENDANT RELIES.

AT PAGE 1257, YOUR HONOR, IN FOOTNOTE 17, THE NINTH CIRCUIT EXPRESSES GREAT SCEPTICISM THAT A SUCCESSFUL PRIOR SUIT CAN EVER [13] BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE COURT: WHERE ARE WE, PLEASE? ON 12—

MR. KROFT: WE'RE ON PAGE 1257.

THE COURT: YES, I'M THERE.

MR. KROFT: FOOTNOTE 17.

THE COURT: OH, YES.

MR. KROFT: NOW, THAT'S IMPORTANT, YOUR HONOR, BECAUSE UNDER THE SUBJECTIVE TEST THAT IS AD-

VANCED BY COUNSEL, EVEN A SUCCESSFUL PRIOR LAWSUIT COULD BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST LITIGATION.

THAT'S WHAT THE FIFTH CIRCUIT SPECIFICALLY HELD IN THE BURLINGTON CASE. AND IT'S ALSO WHAT THE SEVENTH CIRCUIT HELD IN GRIP-PAK CASE.

BUT THE NINTH CIRCUIT SAYS, WE WON'T ALLOW THAT—IN THIS FOOTNOTE 17.

THE COURT: WELL, WAIT A MINUTE. THERE IS NOT CASE SUPPORTING THE PROPOSITION THAT THE BRINGING OF MERITORIOUS SUITS CAN CONSTITUTE SHAM SUITS.

MR. KROFT: YES, YOUR HONOR.

THE COURT: AND YOUR'S WAS NOT A MERITORIOUS SUIT.

MR. KROFT: YOUR HONOR, OUR'S WAS OBJECTIVELY MERITORIOUS THE SENSE THAT IT RAISED VERY CLOSE ISSUES—

THE COURT: I SEE.

MR. KROFT:—OF FIRST IMPRESSION.

THE COURT: I SEE.

[14] MR. KROFT: AND IF—

THE COURT: YOU DON'T HAVE TO WIN IN ORDER TO HAVE A MERITORIOUS SUIT?

MR. KROFT: CORRECT, YOUR HONOR, IN OUR JUDGMENT.

IF YOU ACCEPT THE PROPOSITION THAT DEFENDANT ADVANCES THAT THE TEST IS SUBJECTIVE, THEN THE COURT WILL HAVE TO BE ACCEPTED. THE PROPOSITION THAT EVEN A WINNING PRIOR LAWSUIT, IF BROUGHT FOR MOTIVES, WOULD BE THE BASIS FOR A SUBSEQUENT ANTI-TRUST CLAIM.

THE NINTH CIRCUIT TELLS US IN THE COKE-COLA CASE WE ARE ALLOW THAT.

THE COURT: WELL—

MR. KROFT: AND THE REASON FOR THAT, YOUR HONOR, AGAIN I FIRST AMENDMENT VALUES THAT THE WHOLE NOERR-PENNINGTON DOCUMENT I BASED UPON.

THE COURT: WELL, THEY SAID THAT WE DON'T THINK THAT BRINGING A MERITORIOUS SUIT CAN BE A SHAM.

MR. KROFT: YES, YOUR HONOR. IN THAT CASE I THINK—

THE COURT: DID THEY PREVAIL IN THAT MERITORIOUS SUIT?

MR. KROFT: YES, YOUR HONOR.

THE COURT: WELL, YOU SEE—DOESN'T THAT MAKE A DIFFERENCE.

MR. KROFT: IT MAY BE—

THE COURT: SUPPOSE YOU BRING AN UNMERITORIOUS SUIT FOR THINKING THAT IT WAS A VALID SUIT? THAT'S THE ISSUE HERE; ISN'T IT.

MR. KROFT: YOUR HONOR, THAT'S THE—THAT IS WHAT DEFENDANTS ARE TRYING TO MAKE THE ISSUE.

THE COURT: YES. YES.

MR. KROFT: AND I WOULD ALSO POINT OUT TO THE COURT—

THE COURT: WELL, BUT DOES COKE-COLA DISPOSE OF THAT?

MR. KROFT: NO. COKE-COLA DOES NOT DISPOSE OF IT.

BUT WHAT—LET ME TRY AGAIN, YOUR HONOR.

UNDER THE SUBJECTIVE TEST IN THE OTHER CIRCUITS—THE FIFTH CIRCUIT AND THE SEVENTH CIRCUIT—A WINNING LAWSUIT CAN BE THE BASIS FOR AN ANTI-TRUST—SUBSEQUENT ANTI-TRUST CLAIM IF YOU BROUGHT IT FOR THE WRONG REASONS.

THE NINTH CIRCUIT SAYS, SO TO SPEAK AND NOT THAT EXTREME WINNING LAWSUIT—

THE COURT: YES.

MR. KROFT:—CAN BE THE BASIS FOR AN ANTI-TRUST CLAIM.

THE COURT: THE NINTH CIRCUIT TURNED ITS BACK ON THAT.

MR. KROFT: THAT'S CORRECT.

THE COURT: BUT—

MR. KROFT: THE FIFTH CIRCUIT, BY THE WAY, WAS A VERY DIVIDED PANEL, AND THE MAJORITY DID CONFESS THAT WE WERE NOT TO A WINNING LAWSUIT TO BE THE BASIS OF A SUBSEQUENT ANTI-TRUST CLAIM SUBJECTIVE BASIS.

THEN WE HAVE TO CONFESS THAT IT WOULD MAKE SENSE TO DRAW A LINE NOT JUST OF WHETHER YOU WON OR LOST, BUT WHETHER YOU HAD AN OBJECTIVELY MERITORIOUS CLAIM, WHICH, OR COURSE, IS EXACTLY WHAT NINTH CIRCUIT HAS DONE IN THE RULE 11 CONTEST.

[16] THE NINTH CIRCUIT HAS SAID UNDER RULE 11, IF YOU HAVE AN OBJECTIVELY MERITORIOUS CLAIM THAT IS BROUGHT, REASONABLY BASED ON FACTS AND THE LAW, IT CANNOT BE BROUGHT FOR IMPROPER PURPOSE AS A MATTER OF LAW.

THE COURT: WELL, YOUR ADVERSARY SAYS THAT THE CLIPPER CASE WAS DIFFERENT.

MR. KROFT: THE CLIPPER CASE WAS DECIDED BEFORE THE COKE-COLA CASE.

AND THE CLIPPER CASE DID NOT HAVE THE ISSUE PRESENTED SQUARELY TO IT, YOUR HONOR. I THINK IF YOU READ THE CLIPPER CASE WILL CONCLUDE THAT WHATEVER THE NINTH CIRCUIT MAY HAVE SAID THERE UNDERLYING CLAIMS, IN FACT, WERE OBJECTIVELY SHAM. THEY HAD NO REASONABLE BASIS.

THE NINTH CIRCUIT IN THE CLIPPER EXXPRESS CASE WAS NOT A TO DETERMINE WHETHER AN OBJECTIVELY MERITORIOUS LAWSUIT, SUCH AT COPYRIGHT CASE, COULD EVER BE THE BASIS FOR A SUBSEQUENT ANTITRUST CLAIM.

THE COURT: WELL, ALL RIGHT. I'LL TAKE IT UNDER SUBMISSION.

I'M TROUBLED BY THIS. IN HARKING BACK, I'M CONVINCED THAT THIS WAS A CLOSE ISSUE. I KNOW THE NINTH CIRCUIT—DIDN'T THE NINTH CIRCUIT HAVE IT ARGUED TWICE?

MR. KROFT: WE ARGUED IT TO THE JUDGE OF THE NINTH CIRCUIT YOUR HONOR, AND IT TOOK HIM TWO YEARS TO DECIDE IT.

THE COURT: I KNOW THE CIRCUIT HAD TROUBLE WITH IT JUST [17] AS I HAD TROUBLE WITH IT.

AND I THINK IT WOULD BE MOST UNFORTUNATE UNDER NOERR AGAIN PENNINGTON TO SUBJECT THE PLAINTIFFS TO ANTI-TRUST LITIGATION UNDER THESE CIRCUMSTANCES.

BUT I'M OBLIGED TO ADHERE TO THE LAW.

I'LL TAKE IT UNDER SUBMISSION AND SEE WHETHER OR NOT IT'S A FACTUAL MATTER AS TO WHETHER THE PLAINTIFF WAS IN GOOD FAITH IN BRINGING THIS ACTION, OR WHETHER THEY KNEW

THAT THEY DID HAVE A CHANCE AND WERE SIMPLY TRYING TO HARASS THE DEFENDANT.

MR. KROFT: YOUR HONOR, MAY I MAKE A COUPLE OF COMMENTS TO THE COURT FOR ITS CONSIDERATION WHEN HE DOES TAKE THIS CASE UNDER SUBMISSION?

I'D LIKE TO BRING THE COURT'S ATTENTION TO ONE MORE CASE CALLED ADVISOR, INC. VERSUS PACIFIC TELEPHONE. FOUND 640 F2ND 11.

THE COURT: WHAT CIRCUIT?

MR. KROFT: THAT'S THE NINTH CIRCUIT, YOUR HONOR.

AND THE COURT WILL FIND THERE THAT—I THINK THE COURT AGAIN, WITHOUT HAVING TO FACE THE ISSUES AS THEY'RE SQUARELY BEFORE THE COURT—NEVERTHELESS, I BELIEVE APPLIED AN OBJECTIVE TEST FINDING THE UNDERLYING CASES HAD OBJECTIVE MERIT, AND THAT WAS ALL THE NINTH CIRCUIT NEEDED TO KNOW.

ON THE ISSUE—IF THE COURT WERE TO CONCLUDE THIS QUESTION WAS SUBJECTIVE, I WOULD LIKE TO POINT OUT TO THE COURT THAT THERE IS ABSOLUTELY NO EVIDENCE IN THOSE RECORDS.

THE COURT: WELL, THAT'S WHAT HE WANTS TO FIND. HE WANTS TO [18] SEE BY DISCOVERY IF THEY CAN COME UP WITH A RATIONALE UPON WHICH CAN HANG THEIR CONTENTION THAT YOU KNEW THAT YOU DIDN'T HAVE A CHANCE.

ISN'T THAT RIGHT?

MR. KING: YOUR HONOR—

MR. KROFT: YES, YOUR HONOR.

AND I BELIEVE THERE IS EVIDENCE IN THE RECORD.

THE COURT: WELL, I'M SURE YOU DO.

(LAUGHTER.)

MR. KROFT: I SUBMITTED TO THE COURT IN CONNECTION WITH THE ISSUE THAT ITS AN IMPOSSIBILITY FOR ANYBODY EVER TO KNOW IN ADVANCE THAT AN OBJECTIVELY MERITORIOUS CLAIM RAISING VERY CLOSE ISSUES OF FIRST IMPRESSION WAS A LOSER.

AND THAT'S WHAT THE DEFENDANTS ARE ASKING THIS COURT TO CONCLUDE.

THE FACT THAT THIS CASE WAS VERY CLOSE PRECLUDES ANY POSSIBILITY OF THE PLAINTIFFS HAVING KNOWN IN ADVANCE THAT THEY HAVE UNMERITORIOUS CLAIM.

THE COURT: WELL, I'M INCLINED TO THINK SO TOO. THE PLAINTIFF—THE DEFENDANT COUNTERCLAIMANTS ARE GOING TO HAVE A SUBSTANTIAL UPHILL BATTLE.

BUT I BELIEVE THAT I MUST FIND OUT WHETHER OR NOT I'M OBLIGED TO GIVE THEM A CHANCE.

MR. KING: WOULD YOU LIKE US TO FILE SUPPLEMENTS BASED ON THE ISSUE OF FACT VERSUS—

THE COURT: I WOULD APPRECIATE THAT.

[19] IS THAT ALL RIGHT, MR. KROFT?

MR. KROFT: YES, SIR.

THE COURT: ALL RIGHT. I'LL TAKE IT UNDER SUBMISSION. THE PLAINTIFFS WILL FILE FIRST.

TWENTY DAYS ALL RIGHT?

MR. KROFT: DO YOU MEAN MR. KING?

THE COURT: THE DEFENDANT. I'M SORRY.

MR. KING WILL FILE FIRST.

MR. KING: YOU WANT US TO FILE BEFORE THEIR MOTION?

THE COURT: YES.

MR. KING: THEIR MOTION?

THE COURT: YES.

TWENTY, TWENTY AND TEN.

AND MR. KROFT, WILL YOU PROVIDE ME A TRANSCRIPT OF THIS MORNING'S HEARING?

MR. KROFT: YES, YOUR HONOR, I WILL DO SO.

THE COURT: ALL RIGHT, GENTLEMEN.

MR. KROFT: THANK YOU, YOUR HONOR.

MR. KING: THANK YOU, YOUR HONOR.

THE COURT: SUBMITTED.

(PROCEEDINGS ADJOURNED.)

Certificate of Service omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

FILED

JAN 8 1990

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

COUNTERCLAIMANTS' POST-ARGUMENT
MEMORANDUM IN OPPOSITION TO SUMMARY
JUDGMENT

Pursuant to the request of this Court at oral argument, Counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin ("Irwin"), respectfully submit this memorandum of law in opposition to Counterdefendants', Columbia Pictures Industries, Inc., *et al.* ("Counterdefendants"), motion for summary judgment on Irwin's counterclaims. As instructed, this memorandum discusses a single issue—whether, in this Circuit, a lawsuit that falls

within the scope of the sham exception (and thus unprotected by the *Noerr-Pennington* doctrine) is considered a question of fact or a question of law. Our research indicates that the courts of this Circuit which have addressed the issue uniformly consider the sham issue as one of fact. As such, summary judgment is improper where there are disputed issues of fact exist and adequate discovery has not been provided both parties.

This Circuit definitively stated that the determination of whether an underlying litigation was a sham is a question of fact in *Clipper Express v. Rocky Mountain Motor Tariff*, 690 F.2d 1240 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983). In *Clipper Express*, the Court of Appeals reversed a district court decision granting summary judgment for the antitrust defendants based on the *Noerr-Pennington* doctrine. The Court, in overruling, emphasized the factual nature of the issue:

It is unquestionably true, as defendants assert, that *Noerr-Pennington* confers antitrust immunity for conduct genuinely intended. Whether something is a genuine effort to influence government action, or a mere sham, is a question of fact.

Id. at 1253. The Court overruled the grant of summary judgment because factual issues existed as to whether defendant's activities came within *Noerr-Pennington* doctrine.¹

The following year, this Circuit again determined that whether a lawsuit is a sham is a question of fact. *See, e.g., Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 903 (9th

¹ Denying summary judgment in antitrust cases is common. The general rule is that dispositive pretrial motions are "disfavored" in antitrust cases. *Poller v. Columbia Broadcasting System, Inc.*, 368 U.S. 464, 473 (1962); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 901 (9th Cir. 1983); *Calnetics Corp. v. Volkswagon of America, Inc.* 532 F.2d 674, 683 (9th Cir.) (*per curiam*), *cert. denied*, 49 U.S. 940 (1976).

Cir. 1983) ("[w]hether an effort to invoke the judicial process is a genuine effort to obtain redress, or instead is a mere sham, is a question of fact"); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983) ("it is a question of fact in each instance whether an action is a genuine attempt to influence governmental action or is a mere sham").²

The courts in this Circuit have also implicitly held that whether litigation is a sham is a question of fact. *See, e.g., U.S.S. Posco Industries v. Contra Costa County Building & Construction Trades Council, AFL-CIO*, 692 F. Supp. 1166, 1170 (N.D. Cal. 1988) (allowing further discovery before ruling if improper motive was present); *U.S. Audio & Copy Corp. v. Phillips Business Systems, Inc.*, 1983-2 Trade Cas. (CCH) ¶ 65,364, at 70,174 (N.D. Cal. 1983) (although ruling that *Noerr-Pennington* did not apply for other reasons, court emphasized that antitrust plaintiff had introduced "sufficient evidence to raise a question of fact whether [defendant] had . . . an improper motive" in in-

² The majority of other circuits have similarly indicated that the issue is one of fact. *See, e.g., In re Burlington Northern, Inc.*, 822 F.2d 518, 526 (5th Cir. 1987), *cert. denied*, 108 S. Ct. 701 (1988) ("[t]he factfinder must determine . . . whether the petitioner was engaged in a genuine effort to influence governmental decisionmaking"); *Independent Taxicab Driver Employees v. Greater Houston Transportation Co.*, 760 F.2d 607, 612 n.9 (5th Cir. 1985) ("the existence or nonexistence of shamful conduct is generally a question of fact for the jury"); *Westmac, Inc. v. Smith*, 797 F.2d 313, 318 (6th Cir. 1986) ("[d]etermining whether a party who filed suit was indifferent to obtaining a favorable judgment may often be a difficult question of fact"); *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 472 (7th Cir. 1982), *cert. denied*, 461 U.S. 958 (1983); (recognizing the factual nature of the sham exception in stating "[t]he difficulty of determining the true purpose is great but no more so than in many other areas of antitrust law."); *Colorado Petroleum Marketers Ass'n v. Southland Corp.*, 476 F. Supp. 373, 379 (D. Colo.) ("[t]he question whether to interfere directly with business relationships of a competitor can be answered only after careful evaluation and consideration of all the facts and circumstances giving rise to the primary lawsuit brought by the plaintiffs").

stituting underlying claim); *Ross v. Bremer*, 1982-1 Trade Cas. (CCH) ¶ 64,746, at 71,618 (W.D. Wa. 1982) (emphasizing that "courts must examine closely the particular allegations of each case when determining whether a sham exception should be a question for a jury"); *In re Airport Car Rental Antitrust Litigation*, 521 F. Supp. 568, 588 (N.D. Cal. 1981) (recognizing that a court must "examine the facts put forward by plaintiff in response to this motion to determine whether they raised a genuine issue for trial"), *aff'd* 693 F.2d 84 (9th Cir. 1982), *cert. denied*, 462 U.S. 1133 (1983). *Cf.*, *Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1257 (9th Cir. 1982) (summary judgment granted because antitrust plaintiff failed to come forward with specific factual support for its allegations).

It is axiomatic that a question of fact should be resolved based on an analysis of all the facts. However, counterdefendants have patently refused to provide any meaningful discovery to Irwin. Federal courts are especially reluctant to dispose of antitrust suits at such an early stage of litigation.

[I]n antitrust cases, where "the proof is largely in the hands of the alleged conspirators," *Poller v. Columbia Broadcasting*, 368 U.S. 464, 473 (1962), dismissals prior to giving the plaintiff ample opportunity for discovery should be granted very sparingly.

Hospital Building Co. v. Rex Hospital Trustees, 425 U.S. 738, 746 (1976). *Accord Aydin Corp. v. Loral Corp.*, 718 F.2d at 901-02; *Ernest W. Hahn, Inc. v. Coddling*, 615 F.2d 830, 834 (9th Cir. 1980). This Circuit has specifically emphasized the need for full discovery, and the inappropriateness of summary judgment without the benefit of meaningful discovery, where a key allegation is the sham exception.

Here, plaintiff alleged facts which may be sufficient to support a claim under the sham excep-

tion. This claim should not be finally determined without the benefit of further facts. The parties are entitled to conduct some discovery of matters pertinent to the genuineness of the lawsuit before dismissal on summary judgment.

Energy Conservation v. Heliodyne, Inc., 698 F.2d at 389.

For the foregoing reasons, Irwin respectfully submits that counterdefendants' motion for summary judgment should be denied and discovery on the counterclaims proceed.

Respectfully submitted,

/s/ JW King

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Dated: January 8, 1990

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.

AND RELATED COUNTERCLAIM

PLAINTIFFS' AND COUNTERDEFENDANTS' POST-
HEARING MEMORANDUM IN SUPPORT OF MOTION
FOR SUMMARY JUDGMENT

I.

INTRODUCTION AND SUMMARY OF ARGUMENT

The Post-Argument Memorandum filed by defendants and cross-complainants (hereinafter "La Mancha") asserts that in this Circuit the issue whether a lawsuit (such as the copyright infringement action here) is a sham raises a pure question of fact and that, therefore, the Court has no choice but to deny the summary judgment motion brought by plaintiffs and cross-defendants (hereinafter "plaintiffs"). These assertions are erroneous.

It is well established in this Circuit that lawsuits cannot be considered sham unless the antitrust plaintiff demonstrates that the suits were brought *both* without probable cause *and* for a wrongful anticompetitive purpose. While the second element (wrongful anticompetitive purpose) may

raise factual issues regarding the antitrust defendant's intent in bringing his prior lawsuits, the *first* element (probable cause) raises a pure legal issue (*i.e.*, were the prior lawsuits grounded upon a reasonable basis in fact and law) which is quintessentially appropriate for resolution by summary judgment. Since this Court has concluded as a matter of law that this action was brought *with* probable cause, La Mancha cannot satisfy its burden of demonstrating an essential element of the sham exception to the *Noerr-Pennington* doctrine, and summary judgment on this issue is thus appropriate.

II.

ARGUMENT

The Ninth Circuit has not stated, as La Mancha asserts, that the issue whether a lawsuit falls within the sham exception raises a pure question of fact. Rather, the Ninth Circuit has held that the sham exception requires an antitrust plaintiff to establish *two* elements, one of which raises a pure question of law and the other of which raises a question of fact. As discussed below, plaintiffs are entitled to summary judgment because as a matter of law La Mancha cannot prevail on the *first* of these two elements, and hence a factual inquiry into the second element is unnecessary.

The Ninth Circuit's cases make clear that a lawsuit loses *Noerr-Pennington* immunity, thus giving rise to potential antitrust liability, only if the antitrust plaintiff establishes two things: (1) that the suit was brought without probable cause and (2) that the suit was brought for an improper purpose:

"[T]he immunity does not extend to so-called 'sham proceedings' which were instituted without probable cause *and* in complete disregard of the law to interfere with the business relationships of a compeqtitor." *Handgards, Inc. v. Ethicon*,

Inc., 743 F.2d 1282, 1294 (9th Cir. 1984) (citing *Clipper Express v. Rocky Mountain Motor Tarriiff Bureau, Inc.*, 690 F.2d 1240, 1251-54 (9th Cir. 1982)) (emphasis added)

"[A]llegations that proceedings were instituted without probable cause and regardless of merit, state a cause of action which falls within the exception to *Noerr*." *Clipper Express*, 690 F.2d at 1252 (emphasis added)¹

Thus, to come within the sham exception to the *Noerr-Pennington* doctrine, La Mancha must establish that plaintiffs brought their copyright infringement suit without probable cause and with an improper subjective intent.² To avoid summary judgment, moreover, La Mancha must demonstrate that each of these two essential elements of the sham exception (i.e., lack of probable cause and wrongful anticompetitive intent) raises unresolved fact questions. See *California Architectural Building Products, Inc. v. Franciscan Ceramics, Inc.*, 818 F.2d 1466, 1468 (9th Cir. 1987) ("if the non-moving party will bear the burden of proof at trial as to an element essential to its case, and that party fails to make a showing sufficient to establish a genuine dispute of fact with respect to the existence of

¹ As *Handgards* makes clear, a finding that the antitrust defendant brought his prior lawsuit without regard to the merits of his claim is equivalent to a finding that he wrongfully intended to harm competitors by the mere bringing of his suit rather than by obtaining a favorable judgment. 743 F.2d at 1294-95, quoting R. Bork, *The Antitrust Paradox* 354 (1978). See also *City of Gainesville v. Florida Power & Light Co.*, 488 F.Supp. 1258, 1265-66 (S.D. Fla. 1980) ("the prerequisite motive for the sham exception is the intent to harm one's competitors not by the result of the litigation but by the simple fact of the institution of the litigation" (emphasis in original)).

² Some Ninth Circuit cases use the term "baseless" rather than "without probable cause" to describe the first element of the sham exception. See, e.g., *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984), citing *Clipper Express*.

that element, then summary judgment is appropriate"). La Mancha cannot possibly make such a showing because the first (probable cause) element essential to La Mancha's sham litigation claim raises a pure question of law which this Court has already resolved adversely to La Mancha.

As plaintiffs' pre-hearing memoranda indicate, the Ninth Circuit has not yet directly addressed the issue whether, for purposes of antitrust liability, the first element of the two-part sham test (i.e., "lack of probable cause" or "baselessness") raises a question of law for the Court or, instead, raises a question of fact for the jury. The Ninth Circuit has, however, stated repeatedly in other contexts that a determination whether a lawsuit was brought "without probable cause" or was "baseless" raises a pure question of law. For example, the Ninth Circuit has held that "[i]n a malicious prosecution action the issue of probable cause is a question of law" which must be determined under an objective standard of reasonableness rather than under a subjective standard. *Lucero v. Stewart*, 89 Daily Journal D.A.R. 14890, 14891 (9th Cir. Dec. 14, 1989) (available on Lexis).³ Similarly, in cases decided under Rule 11—which authorizes sanctions for pleadings that are "baseless"⁴—the Ninth Circuit has held that baselessness must be determined under an "objective standard of reasonableness" rather than under a subjective standard. *Riverhead Savings Bank v. Federal Savings & Loan Ins. Corp.*, 90 Daily Journal D.A.R. 510, 51 (9th Cir. Jan. 12, 1990) (available on Lexis); *In re Disciplinary Action Against Mooney*, 841 F.2d 1003, 1005 (9th Cir. 1988) ("The re-

³ See also *Sheldon Appel Co. v. Albert & Oliker*, 47 Cal.3d 863, 874-82, 254 Cal.Rptr. 336, 342-47, 765 P.2d 498 (1989) (existence of probable cause in a malicious prosecution action is a question of law for the court, not a question of fact for the jury).

⁴ *Townsend v. Holman Consulting Corp.*, 881 F.2d 788, 792 (9th Cir. 1989).

quirements of Rule 11 are measured by an objective standard. Subjective good faith is not relevant").⁵

In short, the Ninth Circuit has plainly held that in malicious prosecution and Rule 11 cases it must examine the objective merit of a prior lawsuit, rather than the subjective motivation underlying it, in determining whether the suit was brought "without probable cause" or was "baseless," and that this determination raises an issue of law, not fact. By choosing terms to describe the first element of the sham exception ("without probable cause" and "baseless") which in the malicious prosecution and Rule 11 contexts so clearly raise pure issues of law, the Ninth Circuit has left no doubt that this element of the sham exception also raises a question of law which must be determined under an objective standard of reasonableness rather than under a subjective standard. See *Ad Visor, Inc. v. Pacific Telephone & Telegraph Co.*, 640 F.2d 1107, 1110 (9th Cir. 1981) (antitrust defendant's prior lawsuits were not sham because the suits were objectively reasonable). And, since this Court has concluded as a matter of law that this action was brought *with* probable cause (*Transcript of Proceedings* at 5, 18), thus resolving an essential element of the sham exception against La Mancha, summary judgment on La Mancha's sham litigation claim is entirely appropriate.⁶

The Ninth Circuit case primarily relied upon by La Mancha, *Clipper Express v. Rocky Mountain Motor Tariff*

⁵ Strong practical considerations support the Ninth Circuit's holdings that probable cause is an issue of law for the court rather than an issue of fact for the jury. A determination whether a lawsuit was filed with probable cause requires a thorough analysis of the state of the law at the time the initial lawsuit was filed, as well as an analysis of the evolutionary potential of existing precedent and legal principles. See *Sheldon Appel Co.*, 47 Cal.3d at 876, 886. A lay jury is not equipped to undertake such an analysis. *Id.* at 875.

⁶ A Copy of the *Transcript of Proceedings* is lodged concurrently herewith for ease of reference.

Bureau, Inc., does not require a contrary conclusion. Indeed, as noted above, *Clipper Express* confirms that the sham exception requires an antitrust plaintiff to establish two elements, i.e., that the prior lawsuit was instituted "without probable cause and regardless of merit." 690 F.2d at 1252 (emphasis added). It is true that *Clipper Express* held, as La Mancha notes (Post-Arg. Mem. at 2), that the *second* (wrongful intent) element of the sham exception raises a question of fact:

"Noerr-Pennington confers antitrust immunity for conduct *genuinely intended* to influence governmental action. Whether something is a *genuine effort* to influence governmental action, or a mere sham, is a question of fact." 690 F.2d at 1253 (first emphasis in original; second emphasis added).

But the Court did not hold—nor could it rationally have done so—that the first (probable cause) element of the sham exception also raises a question of fact, rather than an issue of law. Indeed, it is clear that the prior litigation involved in *Clipper Express*, consisting of multiple unsuccessful claims, had no objective merit and, therefore—unlike the copyright infringement suit here—lacked probable cause as a matter of law.⁷

⁷ The other two Ninth Circuit cases upon which La Mancha relies merely follow the *Clipper Express* holding that a determination of the second (wrongful intent) element of the sham exception is a question of fact, i.e., *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 903 (9th Cir. 1983) ("whether an effort to invoke the judicial process is a *genuine effort* to obtain redress, or instead is a mere sham, is a question of fact" (emphasis added)); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983) ("[I]t is a question of fact in each instance whether an action is a *genuine attempt* to influence governmental action or is a mere sham" (emphasis added)). Neither *Aydin* nor *Energy Conservation*, however, held, or even suggested, that the first (probable cause) element of the sham exception is also a question of fact, rather than an issue of law.

La Mancha's reliance upon cases from other circuits is also unavailing. According to La Mancha, these cases provide convincing authority for the proposition that the issue whether a prior lawsuit was "sham" must be judged by the antitrust defendant's subjective motivation in bringing the suit rather than by the suit's objective merit.⁸ However, a close reading of these cases indicates that their analysis of what type of litigation may properly be condemned as "sham" departs significantly from the Ninth Circuit's teaching on this subject.

The rule in the Fifth and Seventh Circuits that an objectively reasonable lawsuit may be deemed a sham simply because the suit was brought with wrongful subjective intent inevitably leads, as the Fifth Circuit was acknowledged, to the unsettling conclusion that even a successful suit might, if improperly motivated, give rise to antitrust liability. See *In Re Burlington Northern*, *supra*, 822 F.2d at 527 ("We cannot, however, lay down a categorical rule that successful petitioning can never be a sham"); *Id.* at 528. In contrast, in the Ninth Circuit a successful prior lawsuit can never form the basis for antitrust liability un-

⁸ La Mancha errs in stating that "the majority of other circuits" agree that the sham litigation issue must be considered a question of fact regardless of whether the prior suit was brought with probable cause. (Post-Arg. Mem. at 3, n. 2). While the Fifth and Seventh Circuits have adopted that erroneous rule (see, e.g., *In Re Burlington Northern*, 822 F.2d 518, 526-28 (5th Cir. 1987); *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 472 (7th Cir. 1982)), the Eighth and Tenth Circuits have rejected it. See e.g. *Razorback Ready Mix Concrete Co., Inc. v. Weaver*, 761 F.2d 484, 487-88 (8th Cir. 1985) (affirming summary judgment on sham litigation issue "regardless of [antitrust defendant's] motive" in bringing prior suit); *Hydro-Tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171, 1176-77 (10th Cir. 1982) (affirming Rule 12(b)(6) dismissal of complaint brought under the sham exception to *Noerr-Pennington*); *Adolph Coors Co. v. A&S Wholesalers, Inc.*, 561 F.2d 807, 812 (10th Cir. 1977) (because the issue raised in antitrust defendant's prior lawsuit was sufficiently difficult to warrant Supreme Court review, the prior lawsuit cannot be deemed a sham).

der the sham exception. *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1384 (9th Cir. 1984) (there is "no authority for holding meritorious lawsuits to be 'sham' litigation violative of antitrust laws").⁹

There is simply no principled way under the first amendment to adhere to the Ninth Circuit's rule that a successful lawsuit—even one brought with wrongful anticompetitive intent—cannot form the basis for antitrust liability while at the same time holding, as La Mancha would have this Court do here, that an objectively meritorious, but ultimately unsuccessful, suit brought with such a wrongful intent *does* give rise to antitrust liability. Since a litigant can never know at the time he files a lawsuit raising difficult issues whether he will eventually win that suit, La Mancha's contrary contention, if accepted by this Court, would convert every suit against a competitor into an antitrust lottery, with treble antitrust damages the penalty for guessing wrong as to the eventual outcome of the case. The first amendment underpinnings of *Noerr*, which guarantee the constitutional right to bring meritorious claims—even losing claims—before the courts, simply do not permit antitrust liability to turn on whether the improperly motivated antitrust defendant ultimately wins or loses his objectively meritorious claim. See *In Re Burlington Northern*, *supra*, 822 F.2d at 534-35 (dissenting opinion); Handler and De Sevo at 40 ("Simply put, *Noerr* cannot be harmonized with a holding that nonetheless claims can be classified as sham merely because their assertion rests on improper motive").

⁹ See also *Coca-Cola v. Overland, Inc.*, 692 F.2d 1250, 1257 n.17 (9th Cir. 1982); M. Handler and R. De Sevo, *The Noerr Doctrine and Its Sham Exception*, 6 Cardozo L.Rev. 1, 31 (1984) ("Handler and De Sevo") ("How a successful suit can conceivably be a sham is not explained, nor do we understand how it could be.").

III.

CONCLUSION

For all of the foregoing reasons, as well as for the reasons set forth in plaintiffs' two pre-hearing memoranda of points and authorities, plaintiffs' motion for summary judgment should be granted.

DATED: January 29, 1990. ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
STACEY M. BYRNES

By: /s/ Stephen A. Kroft
STEPHEN A. KROFT

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[Proof of Service omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

Civil Action No. CV 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

COUNTERCLAIMANTS' POST-ARGUMENT REPLY
MEMORANDUM IN OPPOSITION TO SUMMARY
JUDGMENT

Counterclaimants, Professional Real Estate Investors, Inc., and Kenneth F. Irwin ("Irwin") respectfully submit this memorandum in reply to Plaintiffs and Counterdefendants' Post-Hearing Memorandum in Support of Motion for Summary Judgment ("Counterdefendants' Memo."). As detailed in Irwin's initial Post-Argument Memorandum ("Counterclaimants' Initial Memo."), the courts of this Circuit uniformly consider the issue of whether a lawsuit falls within the scope of the sham exception (and thus unprotected by the *Noerr-Pennington* doctrine) as a question of fact.

In response, Counterdefendants attempt to qualify this dictate by asserting a new argument. Counterdefendants contend that this Circuit has established a two-pronged test for determining whether a lawsuit is a sham and outside the *Noerr-Pennington* doctrine. Under Counterde-

fendants' new theory, a suit is a sham if it is brought both without probable cause and with an anticompetitive intent. Counterdefendants then argue that the first prong, probable cause, is a question of law. Counterdefendants' Memo. at 1-5. In actuality, this circuit has never promulgated such a two-pronged test. In fact, courts which have addressed the issue have determined that a lawsuit could be a sham even if brought with "probable cause". Because Counterdefendants have refused to provide any discovery as to its knowledge in instituting the underlying lawsuit, summary judgment is improper.¹

¹ Irwin's antitrust counterclaims are not predicated merely on the sham litigation instituted by Counterdefendants. Rather, Counterdefendants have engaged in other anticompetitive activities with an intent to restrain and eliminate trade in the retail sale and rental of videos and, in particular, in the rental of videos for private viewing in hotel rooms by, among other actions:

- Boycotting and concertedly refusing to grant licenses to Irwin and possibly others;
- Misusing their copyrights by employing threatening notices on videos that state viewing of the video is restricted to "home use" and that non-home use will subject the user to civil and criminal penalties, in conjunction with the FBI symbol;
- Placing of threatening advertisements by their trade associations in hotel trade journals warning hotels against "stealing" Counterdefendants' copyrights by renting or using videos; and
- Discriminating among licensees by charging different license fees to different distributors, possibly to punish distributors that sell to businesses that rent videos, and other improper acts.

Further discovery is necessary to develop these claims. The courts have recognized that even a legitimate activity can be subject to review if part of a broader anticompetitive scheme. *Clipper Express v. Rocky Mountain Tariff Bureau, Inc.*, 690 F.2d 1240, 1263 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983).

ARGUMENT

The Ninth Circuit has definitively stated that the determination of whether an underlying litigation was a sham is a question of fact. *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1253 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983) ("[w]hether something is a genuine effort to influence governmental action, or a mere sham, is a question of fact"); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897, 903 (9th Cir. 1983) ("[w]hether an effort to invoke the judicial process is a genuine effort to obtain redress, or instead is a mere sham, is a question of fact"); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386, 389 (9th Cir. 1983).² This Circuit has specifically emphasized the need for full discovery, and the inappropriateness of summary judgment without the benefit of meaningful discovery, where a key allegation is the sham exception. *Energy Conservation v. Heliodyne, Inc.*, 698 F.2d at 389. Counterdefendants themselves recognize that the "requisite motive for the sham exception is the intent to harm one's competitors not by the *result* of the litigation but by the simple fact of the *institution* of litigation." *Gainesville v. Florida Power & Light Co.*, 488 F. Supp. 1258, 1265-66 (S.D. Fla. 1980) (emphasis in original). See also *Clipper Express v. Rocky Mountain Tariff Bureau, Inc.*, 690 F.2d at 1255. Counterdefendants do not, and cannot, deny that this inquiry into intent is purely a question of fact. See Counterdefendants' Memo. at 2.

Faced with uncontradicted precedent that the applicability of the sham exception is a question of fact, Counterdefendants create a new theory. Counterdefendants argue, for the first time in their Post-Hearing Memorandum, that the Ninth Circuit has "clear[ly]" established a two-pronged test for assessing the applicability of the sham

² That the issue of sham is a question of fact is discussed more fully in Counterclaimants' Initial Memo. at 2-4.

exception. Counterdefendants' Memo. at 2. Counterdefendants argue that *Noerr-Pennington* immunity is lost only if plaintiff can establish both that the suit was filed without probable cause and the suit was brought for an improper purpose. *Id.* Counterdefendants then contend that the first prong, whether a suit is brought without probable cause, is a question of law and not fact. *Id.* Yet, there is not a single case that sets forth a two-pronged test much less that one of those prongs raises a question of fact. Rather, the cases have uniformly held that the applicability of the sham exception to *Noerr-Pennington* immunity is a question of fact. In fact, the courts in this Circuit have held that the sham exception to *Noerr-Pennington* applies even if the underlying lawsuit was brought with objective probable cause. Not only is Counterdefendants' contention of a two-pronged test unsupported, but it is contradicted by the precedent in this Circuit.³

I.

THE NINTH CIRCUIT HAS NOT ADOPTED COUNTERDEFENDANTS' ASSERTED TWO-PRONGED TEST

Counterdefendants state that "[i]t is well established in this Circuit that lawsuits cannot be considered sham unless the antitrust plaintiff demonstrates that the suits were

³ Irwin disputes Counterdefendants' assertion that "this Court has concluded as a matter of law that this action was brought *with* probable cause." Counterdefendants' Memo. alt 5 (emphasis in original). To support this contention, Counterdefendants rely on isolated comments made three months after the hearing on the merits, at a hearing to determine whether discovery on the counterclaims should be stayed pending appeal. Yet, a review of the transcript of the December 19, 1985 hearing on the merits reveals no question but that Counterdefendants' claim lacked merit. Irwin urges the Court to review this transcript and its notes for a full picture of what transpired concerning the merits of the suit. A copy of the *Transcript of Proceedings* is lodged concurrently herewith for ease of reference.

brought *both* without probable cause *and* for a wrongful anticompetitive purpose". Counterdefendants' Memo. at 1. Counterdefendants cite no case explicitly stating such a two-pronged test for the sham exception, with one prong being a question of law and the other a question of fact. In fact, no such case exists. Rather, Counterdefendants attempt to extrapolate its "clear" and "well established" test from a single quote in *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1252 (9th Cir. 1982)

[A]llegations that proceedings were instituted without probable cause, *and* regardless of merit, state a cause of action which falls within the exception of *Noerr*.

(emphasis added by Counterdefendants.) Counterdefendants rely exclusively on the word "and" to create a rule having both objective elements (legal) and subjective elements (factual).⁴

The quote in no way establishes a two-pronged test where both prongs need to be satisfied before a sham finding is warranted. Rather, the court is merely stating that in that particular action, a suit was instituted without objective probable cause, and the party instituting the action had a "bad" subjective intent. If the court in *Clipper Express* actually intended to create a two-pronged test, it would have explicitly done so. No case before or after *Clipper Express* has ever articulated this two-part test that Counterdefendants now contend is "clear" and "well established." Indeed, no court has even cited *Clipper*

⁴ Counterdefendants also cite *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1294 (9th Cir. 1984), for the proposition that a claim brought with probable cause cannot be a sham: "the immunity does not extend to so-called 'sham proceedings', which were instituted without probable cause *and* in complete disregard of the law to interfere with the business relationships of a competitor." (emphasis added). This case cites *Clipper Express*, and the quotes mirror each other.

Express as developing such a discrete two-pronged test. Instead, courts cite *Clipper Express* for the proposition that the sham exception is a question of fact, requiring full discovery into the circumstances surrounding the initiation of the lawsuit.⁵ *Aydin Corp. v. Loral Corp.*, 718 F.2d at 903.

Finally, Counterdefendants contend that their first prong "probable cause" test is a question of law. They cite not a single case to support this contention. Rather, they rely on cases concerning violations of the obligations under Rule 11 of the Federal Rules of Civil Procedure to investigate adequately claims before filing a suit, and cases contending that prosecution was maliciously instituted. This Circuit has repeatedly held that whether the sham exception to *Noerr-Pennington* is applicable is a question of fact. Counterdefendants cite no caselaw or reason why this Court should ignore those holdings and apply instead the standard used to judge Rule 11 and malicious prosecution cases.

⁵ Counterdefendants contend that the first prong is whether there is probable cause for the suit and that this test raises a question of law. Yet, Counterdefendants define "probable cause" as "whether the prior lawsuits [were] grounded upon a reasonable basis in fact and law." Counterdefendants' Memo. at 1. They also define the second element, which they acknowledge to be a factual issue, as whether the lawsuit was filed "regardless of merit." Counterdefendants' Memo. at 2. Certainly, "without regard to the merits" and "probable cause" (defined as without "basis in fact and law") are the same. Counterdefendants are simply trying to create a two-pronged test in which the distinction between the prongs identifies no meaningful difference. Under both prongs, the question is whether plaintiff brought the suit knowing it lacked merit. This issue, the courts have held, is a question of fact. *Clipper Express*, 690 F.2d at 1253.

II.

THE SHAM EXCEPTION CAN APPLY EVEN IF THE SUIT IS BROUGHT WITH PROBABLE CAUSE

Counterdefendants claim that a lawsuit brought with probable cause can never be a sham in this Circuit. The Ninth Circuit has never promulgated such a test. In fact, courts in this Circuit have determined that a claim brought with objective probable cause, even a successful suit, can be a sham and thus unworthy of *Noerr-Pennington* protection.

In *Ernest W. Hahn, Inc. v. Coddling* 615 F.2d 830 (9th Cir. 1980), this Circuit indicated that the success or failure of the underlying suit is merely one factor to be weighed in determining whether it was a sham.

While success before the political or adjudicative body is not the sole criterion for determining whether a course of proceeding was undertaken as a sham to interfere directly with the business relationships of a competitor, it is a factor considered in determining whether a cause of action is stated under the sham exception.

Id. at 841 n.13 (9th Cir. 1980).

That a successful suit, and certainly one brought with mere probable cause, can be a sham was reemphasized by a court of this Circuit in *Ross v. Bremer*, 1982-2 Trade Cas. (CCH) ¶ 64,746 (W.D. Wa. 1982). The Court stated that:

This court does not believe that success alone can be considered determinative that a course of lawsuits will be protected under *Noerr-Pennington*. There are other questions that must be answered, such as: whether defendants intended to harm their competitors by misusing the adjudicatory process by bringing the lawsuit without

regard or concern about the *result* of the lawsuit; and whether the lawsuit itself would have been baseless or meritless but for the use of deception on the courts.

Id. at 71,618 (emphasis in original). Thus, even a successful suit, much less one brought with probable cause, will not totally preclude a finding of sham. This alone eliminates any merit to Counterdefendants' proffered two-pronged test. If a successful suit can still be the basis of a sham claim, then Counterdefendants' claim that the test includes an objective question of whether there was probable cause is invalid.

The court in *Ross* also emphasized the need for full discovery in sham cases because "courts must examine closely the particular factual allegations of each case when determining whether a sham exception should be a question for the jury." The court recognized that "the policy disfavoring summary dismissals in antitrust cases remains no less strong because *Noerr-Pennington* is invoked." *Id.* at 71,618 (citing *Ernest W. Hahn, Inc.*, 615 F.2d at 834).

Contrary to Counterdefendants' assertions, no court in this Circuit has ever held that a successful lawsuit cannot be a sham. Counterdefendants rely on *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1384 (9th Cir. 1984), and *Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1257 n.17 (9th Cir. 1982). However, *Sealy* and *Coca-Cola* merely recognize that the courts of the Circuit have yet to find a successful lawsuit to be a sham. These cases do not, as Counterdefendants argue, state that a suit which is ultimately successful, much less a suit which is deemed merely "meritorious", could never be a sham. In fact, this Circuit has recognized just the opposite. See *Ernest W. Hahn, Inc.*, 615 F.2d 841 n.13; *Ross v. Bremer*, 1982-2 Trade Cas. (CCH) at 71,618.

Finally, Counterdefendants argue that a litigant filing a lawsuit raising difficult issues is subjecting itself to an

"antitrust lottery, with treble antitrust damages the penalty for guessing wrong as to the eventual outcome of the case." This is not true. If a party files a meritorious lawsuit, be it ultimately successful or not, the lawsuit would most likely be not deemed a sham so long as the party filing the suit instituted the action in subjective good faith. Irwin is simply requesting that the Court not deny the opportunity to investigate adequately Counterdefendants' knowledge in instituting the suit.⁶ Thus, a party initiating an action in subjective good faith is not subjecting itself to an "antitrust lottery". It is only when they institute a suit, as Counterdefendants have here, knowing that their claims lacked merit.

As Counterdefendants have argued, an antitrust plaintiff bears a substantial burden in proving sham when the underlying suit is successful. In *re Burlington Northern, Inc.*, 822 F.2d 518, 528 (5th Cir. 1987). Counterdefendants' underlying claim, however, was *not* successful, and it is questionable if it was truly bought with objective "probable cause". See note 3, *supra*. In any event, Irwin is entitled to discovery concerning Counterdefendants' intent and knowledge. See *Clipper Express*, 690 F.2d at 1255. Since Counterdefendants have afforded Irwin no meaningful discovery as to its knowledge in instituting the suit, summary judgment is improper.

CONCLUSION

Counterdefendants do not, because they cannot, challenge Irwin's correct citation of the law that whether the

⁶ This is not the case of an antitrust plaintiff merely "fishing" for detrimental information against the opposing party. In Counterclaimants' Memorandum In Opposition To Counterdefendants' Motion For Summary Judgment at 12-13, Irwin set forth specific reasons indicating that Counterdefendants knew that the lodging facilities at Irwin's facility are private, not public, places and that their copyright action was without merit.

sham exception is applicable is a question of fact. Rather, they create, for the first time in their Post-Hearing Memorandum, a new, two-pronged test. Other than their own creative reading of two cases, Counterdefendants have cited not a single case to support this new, two-pronged test. Rather, Counterdefendants seek to have this Court assume the Ninth Circuit intended to create this two-pronged test and assume that the first prong of the test, "probable cause," is a question of law. To make these assumptions, Counterdefendants would have the Court ignore the consistent decisions of this Circuit holding that the application of the sham exception to the *Noerr-Pennington* doctrine is a question of fact. For the foregoing reasons, Irwin respectfully submits that Counterdefendants' motion for summary judgment should be denied and discovery on the counterclaims proceed.

Respectfully submitted.

COLLIER, SHANNON & SCOTT

By: /s/ JW King

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and Kenneth F. Irwin

Date: February 12, 1990

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

FILED
CLERK, U.S. DISTRICT COURT
MAR 2 1990
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

MEMORANDUM OF DECISION

The plaintiff's motion for summary judgment on the defendant's counterclaim was heard on December 12, 1989, and taken under submission by the court for the purpose of determining whether the "sham" exception to the Noerr-Pennington doctrine¹ applies to the action of the plaintiff in having filed and prosecuted this case. The court now concludes that such action was not a sham and that, under

¹ *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); and *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

the Noerr-Pennington doctrine, the counterclaim must be dismissed.

The claim that the plaintiff set forth in its complaint was adjudicated by this court. It was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the Court of Appeals had trouble with it as well. I find that there was probable cause for bringing the action, regardless of whether the issue was considered a question of fact or of law.

Under the Noerr-Pennington doctrine, "[f]irst amendment protection is extended and application of the anti-trust laws suspended because a legitimate effort to influence government action is part of the guaranteed right to petition." *Clipper Express v. Rocky Mountain Motor Tariff*, 690 F.2d 1240, 1255 (9th Cir. 1982). Here the plaintiff's attempt, although unsuccessful, was clearly a legitimate effort and therefore not a sham.

The defendant points to the comment in the opinion in *Clipper* that "whether something is a genuine effort to influence governmental action is a question of fact." 690 F.2d at 1253. The defendant then insists that it is entitled to discovery in an effort to show that the plaintiff brought this action in furtherance of its efforts "to restrain and eliminate trade in the retail sale and rental of videos and, in particular, in the rental of videos for private viewing in hotel rooms." (Defendant's brief of February 12, 1990, page 2, fn. 1).

However, as is pointed out in *Clipper*, 690 F.2d at 1251, the Supreme Court in *Noerr* held that "even if the defendants' sole purpose in seeking to influence the passage and enforcement of laws was to destroy the truckers' business, the immunity remained."

This case is distinguishable from *Clipper* and from *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), upon which the defendant relies, in that, there, the actions alleged to have been sham were assertions made in pleadings and could not be factually evaluated; here, the accused actions were adjudicated by the court and specifically determined not to have been a sham.

In accordance with the foregoing, a judgment dismissing the counterclaim will be rendered.

DATED: March 1, 1990

William P. Gray
WILLIAM P. GRAY
United States District Judge

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED
CLERK, U.S. DISTRICT COURT

MAR 12 1990

CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

SUMMARY JUDGMENT IN FAVOR OF PLAINTIFFS ON
COUNTERCLAIM

On December 18, 1989, the above-captioned matter came on regularly for hearing in the Courtroom of the Honorable William P. Gray, District Judge, on plaintiffs' and counterclaim defendants' motion for summary judgment on the counterclaim asserted by defendants and cross-complainants. Plaintiffs and counterclaim defendants appeared through their counsel, Rosenfeld, Meyer & Susman and Stephen A. Kroft and James L. Seal, and defendants and counterclaimants appeared through their counsel, Collier,

Shannon & Scott and Jeffrey W. King. The parties filed memoranda of points and authorities and affidavits in support of and in opposition to said motion prior to the December 18, 1989 hearing. After the hearing, the parties submitted additional memoranda of points and authorities in support of and in opposition to the motion.

Having read and considered the papers filed by the parties in support of and in opposition to the motion, and having heard and considered oral argument of counsel, and having determined that plaintiffs and counterclaim defendants are entitled to a judgment on the counterclaim as a matter of law, and good cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. Plaintiffs' and Counterdefendants' Motion For Summary Judgment As To The First, Second And Third Counterclaims And For Dismissal Of Remaining Pendent Claims is granted.

2. The First Counterclaim, Second Counterclaim and Third Counterclaim, and each of them, are hereby dismissed on the merits with prejudice.

3. The pendent claims arising under state law asserted in the Fourth Counterclaim, Fifth Counterclaim, Sixth Counterclaim and Seventh Counterclaim are hereby dismissed without prejudice for lack of subject matter jurisdiction.

4. Plaintiffs and counterclaim defendants shall have and recover their costs incurred in defending the Counterclaim and each claim contained therein.

5. The Clerk is directed to enter this Judgment in favor of plaintiffs and counterclaim defendants forthwith.

DATED: March 12, 1990

WILLIAM P. GRAY
WILLIAM P. GRAY
 UNITED STATES DISTRICT JUDGE

Submitted By:
 ROSENFELD, MEYER & SUSMAN
 STEPHEN A. KROFT
 JAMES L. SEAL
 STACEY M. BYRNES

By Stephen A. Kroft
 STEPHEN A. KROFT
 Attorneys for Plaintiffs and
 Counterclaim Defendants

[Certificate of Service omitted in this printing]

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

AND RELATED COUNTERCLAIM

FILED

MAR 16 1990

CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SANTA ANA OFFICE

DEFENDANTS AND COUNTERCLAIMANTS'
OBJECTIONS TO THE SUMMARY JUDGMENT ORDER
PROPOSED BY PLAINTIFFS AND
COUNTERDEFENDANTS

INTRODUCTION

On March 2, 1990, after consideration of Plaintiffs and Counterdefendants' Motion for Summary Judgment, Defendants and Counterclaimants' Opposition, oral argu-

ment, and supplemental briefs, the Court issued a decision granting summary judgment. Thereafter, on March 8, 1990, Plaintiffs and Counterdefendants filed with the Court and served by mail on Defendants and Counterclaimants, Professional Real Estate Investors, Inc. and Kenneth F. Irwin (hereinafter collectively referred to as "Irwin"), a proposed Summary Judgment Order that is the subject of these objections and requests for modifications.

Irwin requests two modifications to the order, as explained more fully below. First, Irwin seeks to strike the paragraph awarding costs. Second, Irwin seeks to modify the order to provide that Plaintiffs and Counterdefendants are not to destroy any documents until all appeals available to Irwin, or the time for such appeals, have expired.

OBJECTIONS AND MODIFICATIONS

I. COSTS ARE NOT WARRANTED IN THIS CASE

As part of their orders, Plaintiffs and counterdefendants propose that this Court order that Plaintiffs and Counterdefendants: "shall have and recover their costs defending the Counterclaim and each claim contained therein." Proposed Summary Judgment in Favor of Plaintiffs on Counterclaim at ¶ 4, p. 2 (hereinafter "Proposed Order"). As this Court is aware, Plaintiffs and Counterdefendants have essentially refused to provide any discovery on the counterclaims. Their failure to provide this discovery caused Irwin to file several motions to compel. The Court never ruled on these motions, ordering the parties to negotiate a solution.¹ As a result, the majority of any costs that Plaintiffs and Counterdefendants have incurred were the result of their own refusal to participate meaningfully

¹ The first motion to compel also sought to compel discovery on matters that involved Plaintiffs and Counterdefendants' claims they made in their original complaint. That portion of the motion became moot when this Court granted summary judgment on Plaintiffs and Counterdefendants' claims in December 1985.

in the discovery process. To allow them now to benefit and recover costs for that activity would be extremely unfair.

Moreover, much of the activity taken in the initial portions of this case involved not only the counterclaims but also the Plaintiffs and Counterdefendants' own claims. It would, therefore, be difficult to separate some of that activity. Accordingly, to award costs would result in the need for additional discovery and motion practice. Given the expense Plaintiffs and Counterdefendants have inflicted upon Irwin in defending its video rental system, to allow Plaintiffs and Counterdefendants to recover any of their costs would be inappropriate.

II. PROTECTION AGAINST DESTRUCTION OF DOCUMENTS IS NEEDED

As set forth above, Plaintiffs and Counterdefendants have uniformly resisted discovery on Irwin's counterclaims. There has been virtually no production of documents which in turn has thwarted all other efforts to initiate discovery. As a result, the Court issued an order "that no documents be destroyed." See Civil Minute Order dated march 24, 1986. That order continues in effect to the present.

Upon receiving the Court's March 2, 1990 opinion granting Plaintiffs and Counterdefendants' summary judgment, Irwin contacted Plaintiffs and Counterdefendants to request that they continue to abide by the order, at least until Irwin makes a decision on the appeal. Plaintiffs and Counterdefendants have agreed to that arrangement. As a result, the order will stay in place until an appeal is filed or the time to appeal expires.

It is essential, that if Irwin appeals this Court's summary judgment decision, that an order preventing destruction of important documents remains in place. If Irwin does appeal, and is successful in that appeal, its ability to prove its case would be severely hindered if Plaintiffs and

Counterdefendants can destroy documents during the pendency of the appeal. As a matter of fairness, the order should be modified to include the following paragraphs:

Until all appeals by either party have expired, or the time for such appeals has expired, or otherwise ordered by this Court or the Ninth Circuit Court of Appeals, it is ordered that no documents related in any way to the counterclaims be destroyed.

Inclusion of this language will ensure that Irwin has a fair opportunity to complete its discovery should Irwin succeed on its appeal, if one is taken.

CONCLUSION

It is important that this Court take into consideration the history of this case and the on-going refusal of Plaintiffs and Counterdefendants to participate in or provide any meaningful discovery. Accordingly, for the foregoing reasons, the proposed Summary Judgment Order should be modified to eliminate any award to Plaintiffs and Counterdefendants' of their costs, and should include a provision to ensure that documentary evidence is not destroyed during the pendency of any appeals.

Respectfully submitted,
COLLIER, SHANNON & SCOTT

Cecelia A. Lupi, Esq.

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Counsel for Defendants and
Counterclaimants, Professional
Real Estate Investors, Inc. and
Kenneth P. Irwin

DATED: March 15, 1990

[Proof of Service omitted in this printing]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIM

FILED
CLERK, U.S. DISTRICT COURT

APR 6 1990

CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

AMENDED SUMMARY JUDGMENT IN FAVOR OF
PLAINTIFFS ON COUNTERCLAIM

On December 18, 1989, the above-captioned matter came on regularly for hearing in the Courtroom of the Honorable William P. Gray, District Judge, on plaintiffs' and counterclaim asserted by defendants and cross-complainants. Plaintiffs and counterclaim defendants appeared through their counsel, Rosenfeld, Meyer & Susman and Stephen A. Kroft and James L. Seal, and defendants and counterclaim plaintiffs appeared through their counsel, Collier, Shannon & Scott and Jeffrey W. King. The parties filed

memoranda of points and authorities and affidavits in support of and in opposition to said motion prior to the December 18, 1989 hearing. After the hearing, the parties submitted additional memoranda of points and authorities in support of and in opposition to the motion.

Having read and considered the papers filed by the parties in support of and in opposition to the motion, and having heard and considered oral argument of counsel, and having determined that plaintiffs and counterclaim defendants are entitled to a judgment on the counterclaim as a matter of law, and good cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. Plaintiffs' and Counterclaim Defendants' Motion For Summary Judgment As To The First, Second And Third Counterclaims And For Dismissal Of Remaining Pendent Claims is granted.

2. The First Counterclaim, Second Counterclaim and Third Counterclaim, and each of them, are hereby dismissed on the merits with prejudice.

3. The pendent claims arising under state law asserted in the Fourth Counterclaim, Fifth Counterclaim, Sixth Counterclaim and Seventh Counterclaim are hereby dismissed without prejudice for lack of subject matter jurisdiction.

4. Plaintiffs and counterclaim defendants shall have and recover their costs incurred in defending the Counterclaim and each claim contained therein.

5. Until all appeals, if any, from this amended judgment have been resolved, dismissed or abandoned, or the time for filing a notice of appeal from this amended judgment has expired without such a notice of appeal having been filed, or until otherwise ordered by this Court or by the Ninth Circuit Court of Appeals, plaintiffs and counterclaim

defendants are prohibited from destroying documents related in any way to the counterclaims. This Court shall retain continuing jurisdiction to dissolve, vacate, suspend, modify or enforce the provisions of this Paragraph 5 during the pendency of any appeal in this action.

6. The Clerk is directed to enter this amended judgment in favor of plaintiffs and counterclaim defendants forthwith.

DATED: April 4, 1990

William P. Gray
WILLIAM P. GRAY
UNITED STATES DISTRICT JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

NO. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.

AND RELATED COUNTERCLAIM

NOTICE OF ENTRY

TO DEFENDANTS AND COUNTERCLAIM PLAINTIFFS
AND TO THEIR ATTORNEYS OF RECORD:

YOU AND EACH OF YOU WILL PLEASE TAKE NOTICE
that the Amended Summary Judgment in Favor of
Plaintiffs on Counterclaim was entered by the Clerk in
the above-captioned matter on April 9, 1990 and the Stip-
ulation Re Amended Judgment and Order Thereon
(F.R.Civ. P. 59(e)) was entered on April 10, 1990.

DATED: April 13, 1990. ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
STACEY M. BYRNES

By: /s/ Stephen A. Kroft
STEPHEN A. KROFT

[Verification and Proof of Service omitted in this printing]

No. 90-55583

No. 90-55668

No. 90-55746

IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

(USDC-Central District
Docket No. 83-2594 WPG)

COLUMBIA PICTURES INDUSTRIES, etc., et al.
Plaintiffs/Counter-Defendants/Appellees
vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,
Defendants/Counter-Claimants/Appellants

MOTION TO STRIKE PORTIONS OF APPENDIX TO
FIRST CROSS-APPEAL BRIEF

Plaintiffs/Counter-Defendants/Appellees hereby move the
Court for an order striking pages 548-550 and 554-577
(Tabs CC, DD and FF) from the Appendix To First Cross-
Appeal Brief submitted by Defendants/Counter-Claimants/
Appellants Professional Real Estate Investors, Inc. and
Kenneth F. Irwin ("defendants") in the above-captioned
matter. The grounds for this motion are that defendants
did not submit the foregoing material to the District Court,
such material is therefore not part of the record in the
District Court or on this Appeal, and defendants therefore
may not rely on it in this Court.

DATED: November 8, 1990.

ROSENFELD, MEYER & SUSMAN
 STEPHEN A. KROFT
 JAMES L. SEAL
 TERRI L. CHENEY

By: /s/ Stephen A. Kroft
 STEPHEN A. KROFT
 Attorneys for Plaintiffs Counter-
 Defendants/Appellees

MEMORANDUM OF POINTS AND AUTHORITIES INTRODUCTION

By this motion, Plaintiffs/Counter-Defendants/Appellees ("plaintiffs") seek an order striking certain portions of the Appendix To First Cross-Appeal Brief ("Appendix") submitted to this Court by Defendants/Counter-Claimants/Appellants Professional Real Estate Investors, Inc. and Kenneth F. Irwin ("defendants").¹ The portions of the Appendix to which this motion is directed consist of a copyright warning label, a trade journal article and a distribution agreement, all of which defendants contend violate antitrust law. (See Corrected First Cross-Appeal Brief ("Opening Brief") 19-24.) These materials appear in the Appendix at pages 548-550 and 554-577, and are designated as Tabs CC, DD and FF in the Appendix. The grounds for this motion are that defendants did not submit any of the foregoing material to the District Court, and such material is therefore not part of the record in the District Court or on this appeal.

ARGUMENT

In this appeal, defendants seek reversal of a summary judgment dismissing their antitrust counterclaim. In their Opening Brief, defendants argue, among other things, that the documents designated as Tabs CC, DD and FF in their Appendix raised triable issues of fact precluding summary judgment (Opening Brief 19-24). Defendants fail to advise the Court, however, that these documents were neither filed nor submitted as evidence in the District Court.

The only evidence that defendants submitted to the District Court in opposition to plaintiffs' summary judgment motion was the declaration of appellant Kenneth F. Irwin ("Irwin"). See Appendix 551-53. Defendants also submitted

¹ Presumably, defendants intend this Appendix to serve as their Excerpts of Record pursuant to Ninth Circuit Rule 30-1.

a declaration by their counsel, Patrick J. Coyne, pursuant to F.R.Civ.P. 56(f). *See* Appellees' Supplemental Excerpt of Record 153-56. True and correct copies of those declarations—the *only* declarations defendants filed in the District Court—are attached hereto for the Court's convenience. The documents which plaintiffs seek to strike, Tabs CC, DD and FF of the Appendix (pages 548-50 and 554-77), were neither attached to these declarations nor submitted by defendants to the District Court in any other fashion.²

This Court has repeatedly held that evidence not presented to the District Court cannot be added to the record on appeal. *See, e.g., U.S. v. Sanchez-Lopez*, 879 F.2d 541, 548 (9th Cir. 1989), ("exhibits and papers not filed with the district court or admitted into evidence are not part of the appellate record"); *Kirschner v. Uniden Corp. of America*, 842 F.2d 1074, 1077 (9th Cir. 1988) ("Papers not filed with the district court or admitted into evidence by that court are not part of the clerk's record and cannot be part of the record on appeal").

When an appellant includes in his Excerpts of Record papers not filed or admitted into evidence in the district court, those portions of the Excerpts will be stricken. *Pyramid Lake Paiute Tribe of Indians v. Hodel*, 882 F.2d 364, 367 n.1 (9th Cir. 1989); *U.S. v. Sanchez-Lopez*, 879 F.2d at 548; *Kirschner*, 842 F.2d at 1077 ("[Appellant] does not dispute that it never filed or submitted to the court below

² Nothing prevented La Mancha from presenting this purported evidence below. For example, La Mancha admits that before the District Court's summary judgment hearing plaintiffs produced in discovery the distribution agreements and copyright warning labels (Appendix 548, 554, Tabs CC & FF) upon which La Mancha relies in this appeal. (*See* Opening Brief 9-10, 23. *See also* Supp. ER 166, ¶ 9). The example of trade publication notices that La Mancha relies upon in this Court (Appendix 549, Tab DD) was also clearly available because it was distributed to the hotel trade (of which La Mancha is a part) in February, 1986, four years before the District Court dismissed the counterclaim.

the Declaration of David R. Buchanan, Excerpts of Record (ER) 236-39. The Declaration, therefore, is not part of the record on appeal and must be stricken.")

Because La Mancha chose not to present to the District Court the documents contained in its Appendix at pages 548-50 and 554-77, and designated in the Appendix as Tabs CC, DD and FF, those documents are not part of the record on appeal, and defendants may not rely on them in this Court. Therefore, under the foregoing authorities, pages 548-50 and 554-77 of defendants' Appendix should be stricken.

DATED: November 8, 1990

Respectfully submitted,

ROSENFELD, MEYER & SUSMAN
STEPHEN A. KROFT
JAMES L. SEAL
TERRI L. CHENEY

By: /s/ Stephen A. Kroft
STEPHEN A. KROFT
Attorneys for Plaintiffs/Counter-
Defendants/Appellees

DECLARATION OF STEPHEN A. KROFT

I, Stephen A. Kroft, declare and say as follows:

1. I am an attorney at law duly licensed to practice in the State of California and before this Court and am a partner in the firm of Rosenfeld, Meyer & Susman, attorneys of record for Plaintiffs/Counter-Defendants/Appellees ("plaintiffs").

2. I was the attorney principally responsible for filing, briefing, and arguing the motion for summary judgment which gives rise to this appeal.

3. The *only* evidence submitted by defendants in opposition to plaintiffs' motion was the Declaration of Appellant Kenneth F. Irwin ("Irwin"). See Appendix to First Cross-Appeal Brief ("Appendix") 551-53. In addition, defendants submitted the declaration of their counsel, Patrick J. Coyne, for the purpose of requesting additional discovery pursuant to F.R.Civ.P. 56(f). See Appellees' Supplemental Excerpts of Record 153-56. These were the only declarations submitted by defendants in opposition to the motion. True and correct copies of these declarations are attached hereto as Exhibits A and B for the Court's convenience.

4. The material included in defendants' Appendix at pages 548-550 and 554-77, and marked as Tabs CC, DD and FF, was not attached either to the Declaration of Mr. Irwin or to the Declaration of Mr. Coyne. Indeed, that material was not submitted to the District Court at all, and, accordingly, it was not considered by the District Court in connection with plaintiffs' motion for summary judgment.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 8th day of November, 1990, at Beverly Hills, California.

No. 90-55583

No. 90-55668

No. 90-55746

**IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

**(USDC - Central District
Docket No. 83-2594 WPG)**

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,

Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., and
KENNETH F. IRWIN,

Defendants.

AND RELATED COUNTERCLAIMS

**APPELLANTS' MEMORANDUM IN OPPOSITION TO
APPELLEES' MOTION TO STRIKE PORTIONS OF
APPENDIX TO FIRST CROSS-APPEAL BRIEF**

Defendants/Counter-Claimants/Appellants Professional Real Estate Investors, Inc., and Kenneth Irwin ("Irwin"), respectfully submit this memorandum in opposition to Plaintiffs'/Counter-Defendants'/Appellees' ("Appellees") Motion to Strike Portions of Appendix to First Cross-Appeal Brief. The materials which Appellees seek to strike are directly relevant to the issues on appeal. More important, the parties referred to these materials in discovery requests and in hearings and pleadings before the district court. Appellees' motion to strike must be denied.

I. BACKGROUND

Appellees' motion seeks to strike certain materials submitted in connection with Appellant Irwin's appeal of the decision of the United States District Court for the Central District of California, granting summary judgment and dismissing Irwin's counterclaims. (Exhibit 1) Irwin's counterclaims alleged that Appellees, seven major movie studios, violated the federal and California antitrust laws and the California statutory and common law regarding commercial trade practices by engaging in a pattern of anticompetitive activity, including:

- Filing of the copyright infringement action against Irwin, which Appellees knew was groundless and had admitted was groundless in other judicial proceedings;
- Filing similar copyright suits to intimate other hotels and resorts from adopting similar video rental programs;
- Boycotting and concertedly refusing to grant licenses to Irwin;
- Collectively adopting restrictions in their distribution agreements prohibiting all rentals of videos except for "home use";
- Misusing their copyrights by employing threatening notices on videos misstating that viewing of the video is restricted to "home use" and that any non-home use could subject the user to civil and criminal penalties; and
- Placing, through their trade associations, threatening advertisements in hotel trade journals warning hotels against "stealing" Appellees' copyrights by renting or using videos for viewing in the privacy of the guest lodgings.

Irwin repeatedly sought discovery on those claims, without success. Although Appellees stated that they would

provide Irwin an opportunity to inspect and copy documents, Appellees refused to provide any documents. Irwin then filed a motion to compel Appellees to produce the documents. In an attempt to move the case forward, Irwin agreed with Appellees to file cross-summary judgment motions on Appellees' claims of copyright infringement.

Following the district court's ruling in favor of Irwin on the copyright infringement claims, Irwin again attempted to secure responses to their unanswered discovery requests. Appellees again refused to cooperate and Irwin was forced to file a second motion to compel. The district court, while emphasizing that discovery is required for proper resolution of the counterclaims, stayed discovery on the counterclaims pending resolution of the appeal of the copyright infringement claims. The Ninth Circuit affirmed the district court's holding in Irwin's favor on the copyright infringement claims. Appellees then indicated that they intended to file a summary judgment motion on Irwin's counterclaims. The district court noted again that Irwin was entitled to discovery before a motion for summary judgment could be resolved. Appellees have provided no substantive information in response to Irwin's remaining requests. Despite the district court's instructions, and the fact that Appellees failed to provide any meaningful discovery, Appellees moved for summary judgment.

Without requiring Appellees to provide the discovery necessary to develop the counterclaim issues, the district court dismissed Appellants' federal antitrust counterclaims on Appellees' motion for summary judgment.¹ The basis for the dismissal was the *Noerr-Pennington* doctrine, which grants limited immunity under the antitrust laws for legitimate efforts to obtain government action. The *Noerr-Pennington* doctrine is subject to certain critical exceptions, which are at issue in this case, including: sham law-

¹ The district court also dismissed, without prejudice, Appellants' pendant state law counterclaims.

suits, improper copyright notices, threats of copyright misuse, refusals to deal, and restrictions on distribution licensing agreements. Irwin argued that several of those exceptions applied based on Appellees' pattern of anticompetitive activities.

The district court, however, considered only the allegation that Appellees filed their copyright infringement suit knowing it lacked merit. The district court made no mention of the numerous other allegations, and proof, of anticompetitive conduct presented by Irwin. Appellees' summary judgment motion was granted notwithstanding: the numerous genuine factual issues raised; Irwin's showing of the need for discovery in order to be able to respond to the summary judgment motion; and Appellees' failure to provide any meaningful discovery on these issues. In essence, Appellees were allowed to refuse to participate in discovery and then reap the benefits of that refusal by obtaining summary judgment.

Despite Appellees' refusal to provide meaningful discovery, Irwin was able to obtain the materials Appellees now seek to strike from the record. These materials consist of a copyright warning label, a trade journal article, and a distribution agreement, appearing in the Appendix at pages 548-50 and 554-77 and designated as Tabs CC, DD, and FF, respectively. (Exhibits 2, 3 and 4)

The materials in question are directly relevant to this Court's *de novo* review of the district court's decision and, in particular, to whether the district court erred in disregarding these materials as evidence of Appellees' pattern of anticompetitive conduct. Appellees do not contend that consideration of these materials will prejudice them in any way. In fact, the parties referred to the materials in question in discovery requests, hearings, and pleadings before the district court.

II. ARGUMENT

A. Because the Standard of Review Is *De Novo*, There Is No Reason to Exclude the Materials in Question

This case does not require the Court to review findings of fact relative to their basis in the record. The issue on appeal is whether, viewing the allegations of the counterclaims in the light most favorable to Irwin, there is any conceivable set of facts from which a jury could find in favor of Irwin. Irwin, however, was denied meaningful discovery in the district court and, therefore, was precluded from submitting evidence to oppose Appellees' motion for summary judgment. Appellees now move to strike from the record materials directly relevant to whether there are triable issues of fact in this case. Appellees do not contend that the Court is prohibited from considering these materials or that consideration of these materials would be prejudicial. As explained below, this Court is free to consider these materials, especially where, as is the case here, the standard of review is *de novo*.

B. The Court Should Consider the Materials Because They Are Relevant and Were Presented to the District Court

1. The Materials in Question May Be Considered by This Court

The materials in question were referred to by the parties in discovery requests, hearings, and pleadings before the district court.² A trial has not yet been held. Irwin has

² Federal Rule of Appellate Procedure 10(a) defines the record on appeal. Rule 10(a) states:

(a) **Composition of the Record on Appeal.** The original papers and exhibits filed in the district court, the transcript of proceedings, if any, and a certified copy of the docket entries prepared by the clerk of the district court shall con-

not yet had an opportunity to take meaningful deposition testimony, and has been prevented from having meaningful document discovery. Nonetheless, the precedent of this and other Circuits is clear: an appellate court may consider documents and materials not filed in the court below, particularly where the Court is reviewing *de novo* the district court's decision on summary judgment. See, e.g., *Leonard v. Dixie Well Service and Supply, Inc.*, 828 F.2d 291 (5th Cir. 1987); *Orthmann v. Apple River Campground, Inc.*, 757 F.2d 909 (7th Cir. 1985). Moreover, the Ninth Circuit has held that an appellate court may, in certain circumstances, take judicial notice of matters not considered by the lower court. *Bryant v. Carleson*, 444 F.2d 353 (9th Cir. 1971).

In *Leonard v. Dixie Well Service and Supply, Inc.*, 828 F.2d 291 (5th Cir. 1987), the district court granted summary judgment in favor of defendant. On appeal, the appellant sought to include in the record deposition testimony never filed in the district court despite a rule specifically requiring that it be filed. The parties had referred to the deposition testimony before the district court and "neither party objected to the other's use. . . ." *Id.* at 296. The Court of Appeals held that "the evidence sought to be introduced here was presented to the district court, and, although not properly filed, this court may, in its discretion, consider the evidence." *Id.* at 296.

In *Orthmann v. Apple River Campground, Inc.*, 757 F.2d 909 (7th Cir. 1985), the complaint was dismissed on the pleadings. On appeal, the appellant included in his appendix evidence not presented to the district court, including "evidence created *after* the district court dismissed his complaint." *Id.* at 914 (emphasis in original). Stating that

stitute the record on appeal in all cases.

Appellees fail to address why this case is different from others in which appellate courts have permitted the record on appeal to include materials not falling within the strict definition of Rule 10(a).

"these materials are no part of the official record . . . on appeal," the Court allowed the plaintiff to attach materials in his appendix that were not part of the record on appeal to show that the case should not have been dismissed. *Id.* at 915. It made no difference that the plaintiff, unlike Irwin, first attempted to make this showing in the record on appeal. *Id.*; see also *Waguespack v. Aetna Life and Casualty*, 795 F.2d 523 (5th Cir. 1986) (after summary judgment, where plaintiff had referred to excerpts from a deposition in hearings and pleadings in the district court, the appellate court included the deposition in the record on appeal, even though the deposition was not filed with the district court as required by local rules and it was unclear whether the district court had relied on the deposition). Hence, this Court may consider even materials that were not filed with the district court, where, as here, the standard of review is *de novo*.

2. The Materials in Question Were Presented to the District Court and Are Relevant

This is not a case in which the materials were never presented to the district court. The materials in questions were referred to in discovery requests, pleadings, and hearings before the district court:

- Copyright warning labels, trade journal article, and distribution agreement: Counterclaimants' Memorandum in Opposition to Counterdefendants' Motion for Summary Judgment (Nov. 8, 1989) (Exhibit 5; Appendix at 423);
- Copyright warning labels and distribution agreement: Declaration of James L. Seal (Dec. 11, 1989) (Exhibit 6);
- Copyright warning label and distribution agreement: Transcript of Hearing before Judge William P. Gray, United States District Court for the Central District

of California (Mar. 24, 1986) (Exhibit 7; Appendix at 345);

- Copyright warning label, trade journal article, and distribution agreement: Notice of Motion and Motion to Compel Counterdefendants to Produce Documents and for Expenses and Attorneys Fees; Memorandum in Support of Motion; Declaration of Noncompliance; and Proposed Order (Mar. 3, 1986) (Exhibit 8; Appendix at 45); and
- Copyright warning label and distribution agreement: Defendants' and Counterclaimants' Request for Production of Documents and Things Nos. 1-40 to Plaintiff and Counterdefendant Columbia Pictures Industries, Inc. (Jan. 7, 1985) (Exhibit 9).

The materials in question are directly relevant to the issues before this Court on appeal, including whether Appellants are entitled to discovery and whether there are triable issues of material fact, thereby making summary judgment inappropriate. These materials and other portions of the Appendix evidence Appellees' pattern of anticompetitive conduct and are examples of the type of evidence Irwin has been denied through discovery.

3. Appellees Have Failed to Show Why Materials Directly Relevant to the Issues on Appeal Should Be Stricken From the Record

The cases on which Appellees rely do not support striking the materials in question from the record. *U.S. v. Sanchez-Lopez*, 879 F.2d 541 (9th Cir. 1989), involved an appeal after a full trial. The appellate court merely excluded factual evidence that could have been but was not presented at trial. *Sanchez-Lopez* provides that, after a trial, an appellate court may exclude from the record on appeal factual evidence not presented at trial. The circumstances of Appellees' motion could be more different from the circumstances in *Sanchez-Lopez*. In this case, the ma-

terials in question substantiate Irwin's counterclaims and establish the existence of a triable issue of fact in the context of a summary judgment motion.

Kirschner v. Uniden Corp. of America, 842 F.2d 541 (9th Cir. 1989), was an appeal of a district court's grant of a protective order. The order was based on certain factual findings. The appellate court reviewed the lower court's decision for abuse of discretion, in contrast to the *de novo* standard required in this case. In *Kirschner*, the Court expressly distinguished its decision to exclude certain documents from the appellate record from a case, similar to this case, in which an appeal is taken from a motion to dismiss, and therefore reviewed *de novo*. *Id.* at 1978. Moreover, the stricken materials were presented to the district court in *Kirschner* only after it had issued its decision. IN contrast, the parties in this case repeatedly referred to the materials in question in discovery requests, pleadings, and hearings before the district court.

Finally, the third case relied on by appellees, *Pyramid Lake Paiute Tribe of Indians v. Hodel*, 882 F.2d 364 (9th Cir. 1989), simply applies Rule 10(a) in a one sentence footnote, and contains no analysis or reasons explaining its decision.

None of the authorities cited by Appellees addresses the question of striking documents which substantiate the allegations of the complaint on an appeal from summary judgment dismissing a complaint. None strikes materials presented repeatedly to the district court in opposition to a summary judgment motion and in support of the need for discovery to respond to such a motion.

III. CONCLUSION

WHEREFORE, for the foregoing reasons, Irwin submits that Appellees' Motion to Strike Portions of Appendix to First Cross-Appeal Brief must be denied.

Respectfully submitted,

Laura J. Barns

LAURA J. BARNs

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Attorneys for Defendants/Counter-
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Dated: November 19, 1990

The Appendix to Appellants' Memorandum in Opposition to Appellees' Motion to Strike Portions of Appendix to First Cross-Appeal Brief is filed under seal in the United States Court of Appeals for the Ninth Circuit.

[Certificate of Service is omitted in this printing]

No. 90-55583

No. 90-55668

No. 90-55746

**IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

**(USDC-Central District
Docket No. 83-2594 WPG)**

COLUMBIA PICTURES INDUSTRIES, etc., et al.,
Plaintiffs/Counter-Defendants/Appellees,
vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., etc., et
al.,
Defendants/Counter-Claimants/Appellants

**APPELLEES' REPLY MEMORANDUM IN SUPPORT OF
MOTION TO STRIKE PORTIONS OF APPENDIX TO
FIRST CROSS-APPEAL BRIEF**

Appellees' pending motion to strike demonstrates that the materials which appellees request this Court to strike were never submitted to the district court and, hence, were not part of the record below. Appellants do not dispute this fact.

Instead, appellants try to justify their failure to present these documents to the district court by stating that they "referred" to the documents at various times below. (Opposition at 7-8). But such oblique references to the existence of documents does not make those documents part of the district court record. Having deliberately chosen to withhold the documents from the district court, appellants "cannot now add these documents to the record of appeal"

(*U.S. v. Walker*, 601 F.2d 1051, 1055 (9th Cir. 1979), and the documents "must be stricken." (*Kirschner v. Uniden Corp. of America*, 842 F.2d 1074, 1077 (9th Cir. 1988)).

Appellants attempt to void this result by arguing that the *de novo* standard of review applicable to the summary judgment in this appeal permits them, unlike parties in other cases, to re-open the record in order to present new evidence on appeal. (Opposition at 5). None of the cases relied upon by appellants, however, supports this bizarre interpretation of, or even discusses, this Court's *de novo* standard of review.

Bryant v. Carlson, 444 F.2d 353 (9th Cir. 1971), the sole Ninth Circuit case cited by appellants, held only that in an interlocutory appeal pursuant to 28 U.S.C. § 1292(b), an appellate court may take judicial notice of judicial proceedings occurring after the § 1292(b) appeal has been taken. *Bryant*, however, did not hold that documents outside the district court record may be considered by the court of appeals. In *Leonard v. Dixie Well Service & Supply, Inc.*, 828 F.2d 291 (5th Cir. 1987), and *Waguespack v. Aegtna Life & Cas. Co.*, 795 F.2d 523 (5th Cir. 1986), unlike here, the evidence at issue was in the district court record; the only question in those cases was whether the evidence had been presented in proper form. Finally, *Orthmann v. Apple River Campground, Inc.*, 757 F.2d 909 (7th Cir. 1985) emphasized, as do this Court's decisions, that materials outside the district court record are *not* part of the record on appeal and "have no standing as evidence" in the court of appeals. 757 F.2d at 914-15.¹

For the reasons set forth in appellees' moving papers, as well as those set forth above, appellees' motion to strike should be granted.

¹ Moreover, as Appellees' Brief makes clear, even if the extra-record material relied upon by appellants could be considered as evidence in this appeal, it would not justify reversal. See Appellees' Brief 35-36.

DATED: November 28, 1990

Respectfully submitted,

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IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

(USDC-Central District
Docket No. 83-2594 WPG)

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs/Counter-Defendants/Appellees
vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants/Counter-Claimants/Appellants

APPELLANTS' SUPPLEMENTAL MEMORANDUM IN
OPPOSITION TO APPELLEES' MOTION TO STRIKE
PORTIONS OF APPENDIX TO FIRST CROSS-APPEAL
BRIEF

This memorandum is to notify the Court that Professional Real Estate Investors, Inc. and Kenneth F. Irwin, appellants, have located in the District Court files one of the documents appellees seek to strike. Specifically, the copyright warning label attached as Tab CC to the Appendix to First Cross-Appeal Brief was filed as Exhibit 10 to Irwin's Declarations and Exhibits in Support of Defendants' Cross-Motion for Summary Judgment and in Opposition to Plaintiffs' Motion for Summary Judgment filed on October 21, 1985, with the United States District Court, Central District of California, in Matter No. 83-2594WPG. As a result, the basis of appellees' motion to

strike this document—that it was not part of the District Court record—is moot.

Appellees have also attempted to file a "reply memorandum." Appellees did not seek leave of this Court to file the reply nor can they justify the need for it. The Federal Rules of Appellate Procedure and the Ninth Circuit Rules do not provide for the filing of replies to motions to strike. Fed. R. App. P. 27(a); Circuit Rule 27-1. As a result, this "reply memorandum" should not be accepted for filing.

Respectfully submitted,

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Dated: December 10, 1990

[Certificate of Service omitted in this printing]

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IN THE
Supreme Court of the United States

OCTOBER TERM, 1992

PROFESSIONAL REAL ESTATE INVESTORS, INC.,

and

KENNETH F. IRWIN,

Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,

EMBASSY PICTURES,

PARAMOUNT PICTURES CORPORATION,

TWENTIETH CENTURY-FOX FILM CORPORATION,

UNIVERSAL CITY STUDIOS, INC.,

WALT DISNEY PRODUCTIONS,

WARNER BROS., INC., and

CBS INC.,

Respondents.

On Writ Of Certiorari To The United States
Court Of Appeals For The Ninth Circuit

PETITIONERS' REPLY BRIEF ON THE MERITS

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PARTIES TO THE PROCEEDING

All of the parties to the proceeding below are set forth in the caption to the case. Pursuant to Rule 29.1 of the Rules of this Court, Petitioners state that Professional Real Estate Investors, Inc. has no wholly-owned subsidiaries and no parent corporation.

TABLE OF CONTENTS

	Page
PARTIES TO THE PROCEEDING	i
TABLE OF CONTENTS	ii
TABLE OF AUTHORITIES	iii
INTRODUCTION AND SUMMARY OF ARGUMENT	1
ARGUMENT	3
I. Respondents And The Government Seek To Divert Attention From Consideration Of The Question On Which Review Was Granted ...	3
II. Respondents' Attempts To Justify The Ninth Circuit's Objective Standard And To Attack The Subjective Standard Are Without Merit	6
A. The Subjective Standard For Distinguish- ing Sham Petitioning Is Neither Over- broad Nor Constitutionally Suspect	6
B. The Subjective Standard For Distinguish- ing Sham Petitioning Is Neither Impos- sible For Factfinders To Apply Nor Unduly Burdensome For Business Per- sons To Accommodate	10
C. The Subjective Standard For Distinguish- ing Sham Petitioning Does Not Promote Abusive Discovery That Would Chill Con- stitutionally Protected Activities	14
III. The Government's Contention That Petitioners Failed To Support Their Anti- trust Claims Is Meritless Because Petitioners Were Denied The Opportunity To Conduct Any Discovery In Support Of Their Claims	15
CONCLUSION	18

TABLE OF AUTHORITIES

CASES:	Page
<i>A.A. Poultry Farms, Inc. v. Rose Acre Farms, Inc.</i> , 881 F.2d 1396 (7th Cir. 1989), cert. denied, 494 U.S. 1019 (1990)	10
<i>American Tobacco Co. v. United States</i> , 328 U.S. 781 (1946)	9
<i>Barry Wright Corp. v. ITT Grinnell Corp.</i> , 724 F.2d 227 (1st Cir. 1983)	10
<i>Bill Johnson's Restaurants, Inc. v. N.L.R.B.</i> , 461 U.S. 731 (1983)	9
<i>In re Burlington Northern, Inc.</i> , 822 F.2d 518 (5th Cir. 1987), cert. denied, 484 U.S. 1007 (1988)	10,12
<i>California Motor Transport Co. v. Trucking Unlim- ited</i> , 404 U.S. 508 (1972)	4,8,9
<i>City of Oklahoma City v. Tuttle</i> , 471 U.S. 808 (1985)	4
<i>Coastal States Marketing, Inc. v. Hunt</i> , 694 F.2d 1358 (5th Cir. 1983)	12,13
<i>Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.</i> , 365 U.S. 127 (1961)	2
<i>Eastman Kodak Co. v. Image Technical Services, Inc.</i> , 60 U.S.L.W. 4465 (1992)	4,13,17
<i>Giboney v. Empire Storage & Ice Co.</i> , 336 U.S. 490 (1949)	9
<i>Grip-Pak, Inc. v. Illinois Tool Works, Inc.</i> , 694 F.2d 466 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983)	10,11
<i>Lee Pharmaceuticals v. Den-Mat, Inc.</i> , 197 U.S.P.Q. (BNA) 62 (C.D. Cal. 1976)	15
<i>MCI Communications Corp. v. Am. Tel. & Tel. Co.</i> , 708 F.2d 1081 (7th Cir.), cert. denied, 464 U.S. 891 (1983)	10

Table of Authorities Continued

	Page
<i>Mark Aero, Inc. v. Trans World Airlines, Inc.</i> , 580 F.2d 288 (8th Cir. 1978)	13
<i>Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.</i> , 475 U.S. 574 (1986)	16
<i>NAACP v. Button</i> , 371 U.S. 415 (1963)	9
<i>Nat'l Collegiate Athletic Ass'n v. Bd. of Regents of the Univ. of Okla.</i> , 468 U.S. 85 (1984)	14
<i>Ocean State Physicians Health Plan, Inc. v. Blue Cross & Blue Shield of Rhode Island</i> , 883 F.2d 1101 (1st Cir. 1989), cert. denied, 494 U.S. 1027 (1990)	10
<i>Otter Tail Power Co. v. United States</i> , 410 U.S. 366 (1973)	10
<i>United Mine Workers of Am. v. Pennington</i> , 381 U.S. 657 (1965)	2
<i>United States v. Diebold, Inc.</i> , 369 U.S. 654 (1962)	17
<i>Westmac, Inc. v. Smith</i> , 797 F.2d 313 (6th Cir. 1986), cert. denied, 479 U.S. 1035 (1987)	13
<i>Zaustinsky v. Univ. of Cal.</i> , 96 F.R.D. 622 (N.D. Cal. 1983), aff'd without op., 782 F.2d 1055 (9th Cir. 1985)	15

RULES:

Federal Rules of Civil Procedure:	
Rule 11	4,11
Rule 12	4
Rule 12(b)	11
Rule 12(c)	11
Rule 16	15

Table of Authorities Continued

	Page
Rule 26	15
Rule 33	14
Rule 34	14
Rule 56(f)	17
Rules of the United States District Court for the Central District of California:	
Rule 6	15
Rule 6.1.1	15
Rule 6.1.2	15
Rule 6.2	15
Rule 6.4	15
Rule 9	15
ARTICLES, TREATISES, AND MONOGRAPHS:	
Phillip E. Areeda, <i>The "Rule of Reason" in Anti-trust Analysis: General Issues</i> (Federal Judicial Center Education and Training Series 1981)	14
Stephen Calkins, <i>Developments in Antitrust and the First Amendment: the Disaggregation of Noerr</i> , 57 Antitrust L.J. 327 (1988)	8
Daniel R. Fischel, <i>Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine</i> , 45 U. Chi. L. Rev. 80 (1977)	8
James D. Hurwitz, <i>Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr</i> , 74 Geo. L.J. 65 (1985)	8,12,13
Arthur R. Miller, <i>Confidentiality, Protective Orders, and Public Access to the Courts</i> , 105 Harv. L. Rev. 427 (1991)	15
Robert L. Stern, et al., <i>Supreme Court Practice</i> (6th ed. 1986)	4

Table of Authorities Continued

	Page
6A Charles A. Wright, et al., <i>Federal Practice and Procedure</i> (2d ed. 1990)	15
8 Charles A. Wright & Arthur R. Miller, <i>Federal Practice and Procedure</i> (1970 & Supp. 1992)	15

IN THE
Supreme Court of the United States
 OCTOBER TERM, 1992

No. 91-1043

PROFESSIONAL REAL ESTATE INVESTORS, INC.,

and

KENNETH F. IRWIN,

Petitioners,

v.

COLUMBIA PICTURES INDUSTRIES, INC.,

EMBASSY PICTURES,

PARAMOUNT PICTURES CORPORATION,

TWENTIETH CENTURY-FOX FILM CORPORATION,

UNIVERSAL CITY STUDIOS, INC.,

WALT DISNEY-PRODUCTIONS,

WARNER BROS., INC., and

CBS INC.,

Respondents.

**On Writ Of Certiorari To The United States
 Court Of Appeals For The Ninth Circuit**

PETITIONERS' REPLY BRIEF ON THE MERITS

INTRODUCTION AND SUMMARY OF ARGUMENT

The positions taken both by Respondents and by the United States and the Federal Trade Commission ("the Government," appearing as *amici*) share a substantial flaw:

they attempt to reformulate, subtly but substantively, the question on which this Court granted review. Both Respondents and the Government would, in effect, have this Court determine whether Respondents' failed copyright action was in fact a sham, and in the process presume that the intent with which Respondents litigated their copyright case against Petitioners was benign, all without permitting Petitioners to conduct any discovery on that issue of fact.

Having thus recast the question presented, Respondents then seek to support the standard for sham petitioning adopted by the Ninth Circuit by arguing that an objective screen is necessary to protect competitors who combine to bring law suits against their rivals from the burdens of discovery and the chilling effect of misunderstood intent.¹ They also argue that the scope of the sham exception to the *Noerr-Pennington*² doctrine is a matter solely of statutory, rather than constitutional, interpretation. Therefore, Respondents argue, courts have wide latitude "to fashion sensible rules" to distinguish sham petitioning, even where those rules would in some circumstances allow competitors to abuse the judicial process. Brief for the Respondents ("Resp. Brief") at 19. Respondents mischaracterize Petitioners' articulation of the proper standard for sham analysis as not calling for any consideration of objective criteria and then criticize their caricature for being purely subjective, constitutionally suspect, imprudent, unreliable, vague, difficult to apply, and productive of abusive discovery.

The Government flatly rejects this fundamental aspect of Respondents' position, and instead supports Petitioners in their arguments against the Ninth Circuit's objective screen. However, notwithstanding its acknowledgement that the Ninth Circuit's standard incorrectly denied

¹ See *infra* n.10.

² *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965).

Petitioners any discovery on issues of liability or damages, the Government urges that the judgment be affirmed because Petitioners failed to present evidence sufficient to withstand summary judgment. We show below that none of Respondents' contentions is tenable, and that the Government's view on summary judgment law is wrong.

ARGUMENT

I. Respondents And The Government Seek To Divert Attention From Consideration Of The Question On Which Review Was Granted.

In seeking certiorari and in their opening brief on the merits, Petitioners presented substantively identical formulations of the question for review by this Court:

Whether the Ninth Circuit misconstrued the sham exception to the *Noerr-Pennington* doctrine by refusing to consider evidence that the lawsuit in question was pursued with indifference to its outcome, after it initially concluded that the lawsuit was not "baseless" as a matter of law?

Petitioners' Brief on the Merits ("Pet. Brief") at i.³ Petitioners argued that the Ninth Circuit erred in holding that, as a prerequisite to discovery on well-pled antitrust claims, an antitrust plaintiff must establish that a sham lawsuit is baseless as a matter of law or suffer dismissal of its case. Blind use of this objective screen is wrong. It would completely immunize from Sherman Act scrutiny antitrust violations occurring in the form of lawsuits that, while "not baseless," were nonetheless brought with indifference to their outcome for other purposes such as to burden and harass a competitor. This Court's precedent and the better reasoned lower court decisions teach that

³ The only change from the question presented in the petition for certiorari was the wording of the descriptive phrase following "lawsuit in question" which, in the petition, read as follows: "was not pursued with a genuine desire to obtain a favorable judgment . . ." Petition for a Writ of Certiorari ("Pet.") at i.

antitrust defendants' subjective intent in petitioning -- i.e., whether they were indifferent to the outcome -- is discoverable when a claim of sham litigation is pled sufficiently and in good faith, in accordance with Rules 11 and 12 of the Federal Rules of Civil Procedure.

In opposition, Respondents argued a materially different question:⁴

Whether the prosecution of a lawsuit involving a pure question of law that was "brought with probable cause and presented issues that were difficult to resolve" (Pet. App. 15a) may subject a party to potential antitrust liability solely on the theory that the suit was not motivated by a desire to achieve a favorable judicial result and, therefore, constituted a "mere sham."

Resp. Brief at i.⁵ See also Resp. Brief at 11 ("[t]he only issue before this Court is whether respondents' copyright lawsuit constituted a 'mere sham' within the meaning of *Noerr* . . ."), *infra* n.10. In essence, Respondents would have this Court presume that their failed copyright case was not a sham, and that the Ninth Circuit's objective

⁴ In this, Respondents failed to heed this Court's recent admonition in *Kodak* that "[o]ur decision to grant certiorari represents a commitment of scarce judicial resources with a view to deciding the merits of one or more of the questions presented in the petition." *Eastman Kodak Co. v. Image Technical Services, Inc.*, 60 U.S.L.W. 4465, 4469 n.10 (1992) (emphasis supplied), quoting *City of Oklahoma City v. Tuttle*, 471 U.S. 808, 816 (1985). See also *Tuttle*, 471 U.S. at 814 n.2; Robert L. Stern et al., *Supreme Court Practice* § 6.25 at p. 363 (6th ed. 1986).

⁵ The "counterstatement of question presented" in Respondents' brief in opposition to the petition is different still from the question presented in their brief on the merits, although similar in the error it propounds:

Whether the court of appeals correctly ruled that, under this Court's holding in *California Motor Transport Co. v. Trucking Unlimited* and its progeny, a lawsuit brought with probable cause -- which indisputably raised very close federal copyright issues of first impression -- is immune from antitrust liability under the *Noerr-Pennington* doctrine.

Brief of Respondents in Opposition to Pet. at i.

screen is needed to protect them from the burdens of discovery and the potential for being misunderstood by a jury.

The Government addresses yet another question:

Whether the sham exception to the *Noerr-Pennington* doctrine can apply to a single unsuccessful lawsuit, when the lawsuit, although not baseless, was brought for the purpose of inflicting injury from the judicial process without regard to the outcome.

Govt. Brief at i. Like Petitioners, the Government recognizes that the Ninth Circuit's objective standard is wrong. See *supra* p. 16. However, by recasting the issue as whether the sham exception "can apply" to a "not baseless" lawsuit, the Government attempts to divert attention from the necessarily derivative error in the Ninth Circuit's denial of Petitioners' discovery, to the illogical proposition that Petitioners in this case are not entitled to pursue their well-pled claims because they failed to come forward with evidence sufficient to defeat Respondents' motion for summary judgment.

The question for review is the one presented by Petitioners upon which this Court granted certiorari, and nothing else. Petitioners alleged a conspiracy on the part of Respondents to destroy their business, in violation of state and federal antitrust laws. Respondents' conspiracy was made manifest through the filing of a sham copyright infringement action, as well as other acts. The sham lawsuit was claimed to be *both* an act in furtherance of that conspiracy and an illegal act in and of itself. Pet. Brief at 8-9. Discovery with respect to these acts is necessary in order that facts can be presented from which a jury may determine whether Respondents intended to secure a result from their copyright lawsuit or were indifferent to its outcome. Respondents would have this Court settle the parties' dispute as though they were at the finish line (i.e., by presuming that the copyright lawsuit was not a sham, a question of fact not ripe for summary judgment, much

less review), when this Court granted review to settle a dispute at the starting blocks (*i.e.*, were Petitioners improperly denied discovery of necessary facts on their well-pled claims).

II. Respondents' Attempts To Justify The Ninth Circuit's Objective Standard And To Attack The Subjective Standard Are Without Merit.

Respondents argue that the Ninth Circuit's objective screen -- that any lawsuit deemed "not baseless" as a matter of law is completely immune from antitrust scrutiny -- is necessary because discovery is burdensome, questions of intent are often misunderstood or decided incorrectly, and the fear of burden and mistake would have such a chilling effect on joint petitioning as to make any subjective intent standard constitutionally suspect.

A. The Subjective Standard For Distinguishing Sham Petitioning Is Neither Overbroad Nor Constitutionally Suspect.

Respondents correctly characterize Petitioners' articulation of the sham standard as "breathtaking in its simplicity." Resp. Brief at 15. However, to suggest that, in its "simplicity," the subjective standard sweeps more broadly than this Court intended, or that it improperly exposes constitutionally-protected conduct to antitrust liability, is simply wrong.

Notwithstanding Respondents' intimations to the contrary (Resp. Brief at 17-19), there is no disagreement among the parties and the Government that the *Noerr-Pennington* doctrine is broad and that its sham exception is narrow. It is not, however, so narrow as to be a nullity, nor is sham petitioning so inconsequential a form of anticompetitive behavior potentially violative of the antitrust laws as to be lightly dismissed.⁶ Properly conceived, a

⁶ See, *e.g.*, Resp. Brief at 31 & n.19, 35. The brief of the Government is particularly eloquent on this point.

If the court of appeals' rule were adopted [as advocated by

standard that focuses on subjective intent (the litigants' indifference to the outcome) inherently balances the competing interests of the First Amendment right to petition with the Sherman Act's proscription against conspiracies in restraint of trade, recognizing the predatory potential for sham litigation to masquerade as *Noerr-Pennington* protected petitioning.⁷

Petitioners' articulation of the standard for distinguishing sham petitioning -- indifference to the outcome -- would apply to a suitably narrow range of cases where plaintiffs press their litigation with no interest in the result. It may be the case, for example, that plaintiffs will file a lawsuit intending to secure a substantive result, because that is the only logical way their objectives can be achieved.⁸ Similarly, cases of mixed motive should be decided conservatively, recognizing the value of the constitutionally-protected component of that petitioning, even if it is accompanied by other motives. See Govt. Brief at 8.⁹ It is

Respondents], it would provide a clear loophole in the Sherman Act's scheme of protection. Litigation can be a powerful weapon with which to inflict injury on business rivals, quite apart from success on the merits. Severe consequences may flow from the mere pendency of court action, and the ability of the judicial process itself to hamstring competitors may spur the filing of a lawsuit without regard to the likelihood of winning. Such abuses can be a source of antitrust concern, even when the litigation rests (however tenuously) on probable cause.

Govt. Brief at 14-15.

⁷ As noted in the petition, many commentators fear that an unduly cramped sham exception creates enormous potential for anticompetitive harm outside the purview of the antitrust laws. See Pet. at 27 n.35, and authorities cited therein.

⁸ If, for example, the relative sizes of plaintiffs and defendants in the underlying copyright action had been reversed, it would be harder to imagine plaintiffs realistically hoping to gain a tactical advantage over their much larger adversaries in the filing of the lawsuit rather than in its victory, or by wearing down their adversaries in the hopes of gaining their preferred business outcome.

⁹ Examples of cases involving mixed motive would include those where

only in those cases where plaintiffs are found to be indifferent to the outcome of their litigation that courts should find a sham and allow the proceeding to continue to determine whether the additional elements of an antitrust violation are present. *Id.* at 24 ("[T]he costs of applying the sham exception to suits that are not baseless are substantially reduced by the normal antitrust screens."). See also *id.* at 25.¹⁰

Respondents' constitutional objections are similarly unfounded. Precedent does not establish that the *Noerr-Pennington* doctrine "rest[s] squarely" (Resp. Brief at 18-19) on an interpretation of the Sherman Act so that, as a result, "the Court has a much freer hand to fashion sensible rules" regarding sham petitioning. *Id.* at 19. The question of the constitutional as opposed to statutory underpinnings of the *Noerr-Pennington* doctrine is not so easily answered. See, e.g., *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972).¹¹ For this

plaintiffs strive for a successful result but are cognizant of the burdens imposed by the litigation, or strongly suspect that their opponents may capitulate regardless of the strength of their position.

¹⁰ Respondents disregard the fact that a finding of sham is but the first step in the successful prosecution of an antitrust claim based on group petitioning. For example, in a further profound misstatement of the question under review by this Court, they state:

The question here, however, is whether it is appropriate to impose treble-damages liability for the filing of an objectively reasonable lawsuit in view of the resulting heavy burden on claims brought for legitimate reasons.

Resp. Brief at 38. This is decidedly not "[t]he question here." *Id.* Petitioners seek only a determination that, under the correct standard for distinguishing sham petitioning, they are entitled to proceed with discovery on their well-pled claims.

¹¹ See also Stephen Calkins, *Developments in Antitrust and the First Amendment: the Disaggregation of Noerr*, 57 Antitrust L.J. 327, 329-31, 345-46 (1988); James D. Hurwitz, *Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr*, 74 Geo. L.J. 65, 79-80 (1985). See generally Daniel R. Fischel, *Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine*, 45 U. Chi. L. Rev. 80 (1977).

reason, it is wrong to brush aside lightly the impact of the Ninth Circuit's objective screen in foreclosing Petitioners' constitutionally-protected right to petition the courts. See generally *Bill Johnson's Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731, 743-44 (1983).

Correspondingly, this Court has also previously determined that the Constitution does not necessarily immunize Respondents' conduct from antitrust scrutiny. "First Amendment rights are not immunized from regulation when they are used as an integral part of conduct which violates a valid statute." *California Motor*, 404 U.S. at 514. The Court further observed in this regard:

First Amendment rights may not be used as the means or the pretext for achieving "substantive evils" . . . which the legislature has the power to control. Certainly the constitutionality of the antitrust laws is not open to debate. A combination of entrepreneurs to harass and deter their competitors from having "free and unlimited access" to the agencies and courts, to defeat that right by massive, concerted, and purposeful activities of the group are ways of building up one empire and destroying another. . . . If these facts are proved, a violation of the antitrust laws has been established. If the end result is unlawful, it matters not that the means used in violation may be lawful.

Id. at 515, quoting *NAACP v. Button*, 371 U.S. 415, 444 (1963). This Court's *Noerr-Pennington* jurisprudence has consistently reflected a balancing of First Amendment concerns with the important enforcement goals of the Sherman Act.¹² Serving those enforcement goals often requires

¹² See, e.g., *Giboney v. Empire Storage & Ice Co.*, 336 U.S. 490, 502 (1949). See also *American Tobacco Co. v. United States*, 328 U.S. 781, 809 (1946).

ferreting out illegal activity that lies hidden beneath otherwise entirely legal behavior.¹³

B. The Subjective Standard For Distinguishing Sham Petitioning Is Neither Impossible For Factfinders To Apply Nor Unduly Burdensome For Business Persons To Accommodate.

Respondents argue that a sham standard grounding liability on subjective intent would be unreliable in application (and therefore troublesome for business persons to put to use), as well as difficult for finders of fact to apply. Resp. Brief at 29-31. Moreover, Respondents appear to suggest that, in adjudicating other antitrust claims such as monopolization and predatory pricing, courts are shifting away from evidence of intent in favor of objective standards, presumably to avoid those problems. Respondents' premises are as incorrect as the conclusion they hope to support. *Id.* at 30-31.

The monopolization and predatory pricing cases Respondents cite for the proposition that antitrust courts look to objective standards rather than evidence of intent on questions of liability (Resp. Brief at 30-31) conclude only that the intent to do harm to a competitor is not a sufficient standard by which to measure whether a violation of the antitrust laws has occurred.¹⁴ Petitioners have already distinguished the intent to compete hard at the

¹³ See, e.g., *Otter Tail Power Co. v. United States*, 410 U.S. 366, 379 n.9 (1973); *In re Burlington Northern, Inc.*, 822 F.2d 518, 527-33 (5th Cir. 1987), cert. denied, 484 U.S. 1007 (1988); *MCI Communications Corp. v. Am. Tel. & Tel. Co.*, 708 F.2d 1081, 1153-58 (7th Cir.), cert. denied, 464 U.S. 891 (1983); *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 471-72 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983).

¹⁴ See, e.g., *Ocean State Physicians Health Plan, Inc. v. Blue Cross & Blue Shield of Rhode Island*, 883 F.2d 1101, 1113 (1st Cir. 1989) ("[T]he desire to crush a competitor, standing alone, is insufficient to make out a violation of the antitrust laws. . .") quoting *Barry Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227, 232 (1st Cir. 1983), cert. denied, 494 U.S. 1027 (1990); see also *A.A. Poultry Farms, Inc. v. Rose Acre Farms, Inc.*, 881 F.2d 1396, 1402 (7th Cir. 1989), cert. denied, 494 U.S. 1019 (1990).

expense of other firms from the subjective intent -- indifference to the outcome -- that is relevant in sham analysis. See Pet. at 9, Pet. Brief at 16. It is *not* the former type of anticompetitive "intent" -- the type of intent described (and dismissed) in the cases cited by Respondent -- that is of importance in this or any other determination of sham petitioning.¹⁵

Respondents further characterize Petitioners' articulation of the proper standard for sham analysis as lacking guidance from objective evidence. See, e.g., Resp. Brief at 2, 20. Contrary to Respondents' characterizations, the correct standard would not exclude objective evidence that sheds light on Respondents' subjective intent. For example, evidence that Respondents filed a patently baseless lawsuit, that they have filed repeated appeals of lawsuits against opponents without consideration of their merits, that they sought but failed to obtain the same anticompetitive result legislatively, that they made contrary admissions in other litigation, or that they have engaged in a broad campaign in a variety of forums to stifle competition would all be useful in ordering and structuring the factfinder's inquiry into subjective intent.

Similarly, it cannot be said that every facially "not baseless" complaint (e.g., a complaint that, at a minimum, survives sanction under Fed. R. Civ. P. 11 or dismissal under Fed. R. Civ. P. 12(b) or 12(c)) was necessarily filed with

¹⁵ Similarly, Respondents misconstrue the discussion of intent in *Grip-Pak*. Respondents state that *Grip-Pak* erroneously "indicates that bad purpose alone is sufficient to establish an abuse of process." Resp. Brief at 38 n.23. Respondents' criticism misses the point entirely. The *Grip-Pak* court stated that "[i]f abuse of process is not constitutionally protected, no more should litigation that has an improper anticompetitive purpose be protected, even though the plaintiff has a colorable claim." *Grip-Pak*, 694 F.2d at 471. As they do on numerous other occasions, Respondents incorrectly conclude that the term "improper purpose" is equivalent to intent to harm a competitor by competing vigorously. To the contrary, the *Grip-Pak* court was referring to the type of intent that is relevant to sham analysis: intent to use (i.e., to abuse) governmental processes with indifference to the outcome.

an intent to achieve success on the merits. In these circumstances, the trier of fact must remain free to evaluate probative evidence going to the question of indifference to the result. See, e.g., *In re Burlington Northern, Inc.*, 822 F.2d at 529 n.8 (5th Cir. 1987), *cert. denied*, 484 U.S. 1007 (1988). Various objective criteria may be useful in helping to determine whether the litigants were indifferent, but no single objective criterion can or should be determinative. Set against contrary objective evidence, the antitrust plaintiff should remain able to discover evidence of the defendants' subjective intent, and to have that evidence evaluated as part of the overall question -- whether the antitrust defendants were indifferent to the result of their lawsuit -- a question to be determined by the trier of fact.

Recognizing that litigants may act with multiple or mixed motivations (particularly in the case of corporate litigants¹⁶), lower courts have successfully structured the inquiry into subjective intent by using rebuttable presumptions of varying strengths, by shifting the burdens of coming forward with evidence and of proof, and by judicial management of both the process of discovery (see *infra* pp. 14-15) and the conduct of trial, including the admissibility of evidence. A lawsuit raising legal issues of some substance should create a *rebuttable* presumption that the litigants were in fact not indifferent to the result of that litigation. Such a presumption recognizes the importance of the petitioning conduct by shifting the evidentiary burden to the party claiming sham to come forward, after discovery, with evidence (evidence that may have been uniquely within the control of the antitrust defendants) to show that the antitrust defendants were in fact indifferent to the result.

Once the party claiming sham has made its *prima facie* case as to the defendants' intent, the burden should shift to the defendants to rebut plaintiff's case. So ordered, the inquiry is not markedly different from that required of

¹⁶ See, e.g., *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358, 1371 (5th Cir. 1983); Hurwitz, *supra* n.11 at 99.

triers of fact dealing with other intent-based rules. See, e.g., *Westmac, Inc. v. Smith*, 797 F.2d 313, 318-19 (6th Cir. 1986), *cert. denied*, 479 U.S. 1035 (1987); *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d at 1371-72 & n.45 (5th Cir. 1983); *Mark Aero, Inc. v. Trans World Airlines, Inc.*, 580 F.2d 288, 297 (8th Cir. 1978); James D. Hurwitz, *Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr*, 74 Geo. L.J. 65, 125-26 (1985).

In reality, abstract characterizations of purely objective and purely subjective standards tend to exaggerate the practical differences between them, and fail to account for the very concrete pitfalls inherent in a rigid reliance on purely objective factors. Cf. *Eastman Kodak Co. v. Image Technical Services, Inc.*, 60 U.S.L.W. at 4469 (1992) ("Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law."). Not all objective tests create bright lines, nor do subjective tests necessarily enmesh the factfinder in a decisional morass or prove "[un]intelligible" to the lay business person seeking to conform his or her behavior to the law. Cf. Resp. Brief at 32-33. In an analogous setting involving the debate between the use of *per se* rules and the rule of reason in antitrust analysis, Professor Areeda has criticized the tendency to categorize and apply decisional rules of thumb inflexibly:

Any contrast of paradigms overstates the difference between a *per se* rule and the rule of reason. Just as the former is not always so tightly prohibitive as is usually supposed, the rule of reason is not so open textured and hospitable to a claim or defense as is often thought. That something is not unlawful *per se* does not always require refined fact finding or balancing; indeed, a particular defense may be rejected categorically or presumptively within the general ambit of a rule of reason. Similarly, the fact that conduct may be unlawful under the rule of reason does not necessarily mean that merely alleging that

conduct should be sufficient to resist a summary disposition of such a claim.

Phillip E. Areeda, *The "Rule of Reason" in Antitrust Analysis: General Issues* 37 (Federal Judicial Center Education and Training Series 1981), cited in *Nat'l Collegiate Athletic Ass'n v. Bd. of Regents of the Univ. of Okla.*, 468 U.S. 85, 109-10 n.39 (1984).

C. The Subjective Standard For Distinguishing Sham Petitioning Does Not Promote Abusive Discovery That Would Chill Constitutionally Protected Activities.

Respondents argue that discovery abuse is the inevitable by-product of a subjective standard for sham petitioning (Resp. Brief at 33-36), and that such abuse will chill the exercise of constitutionally-protected petitioning rights (*id.* at 28-29). However, Respondents' parade of discovery horrors fails to acknowledge the expansive and effective powers of the courts to craft sensible pretrial orders and to guide discovery. Respondents also ignore the manifold opportunities afforded opponents to resist discovery.

Indeed, aside from the drumbeat of hyperbolic complaint concerning Petitioners' "extensive discovery" requests (Resp. Brief at 7 n.4), Respondents largely ignore the very active role played by the court in this litigation in managing what little discovery Petitioners were allowed, and the vigorous resistance Respondents offered at every stage to Petitioners' discovery requests, even after they were modified and limited. See, e.g., J.A. 62-93, 118-47, 368-76, 377-83, 426-40, 441-73, 474-88, 505-26, 629.

Parties from whom discovery is sought have more than adequate means, through objections to discovery requests, oppositions to motions to compel, protective orders, and the like, to resist what may seem to them to be undue burdens. See, e.g., Fed. R. Civ. P. 33, 34.¹⁷ Respondents

¹⁷ Local rules adopted by many district courts impose additional requirements on parties seeking discovery, and provide additional means

employed all of these tools, and more, with vigor below. Furthermore, Rules 16 and 26 of the Federal Rules, supplemented by local rules, provide the courts with broad powers to guide and limit pretrial activities, such as discovery, in order to expedite pretrial preparation and avoid wasteful or abusive practices. See Fed. R. Civ. P. 16, 26.¹⁸ The course of discovery (or, more properly, the lack of discovery) on the antitrust claims in this action demonstrates that parties from whom discovery is sought are not without means to resist such discovery, and that courts are not powerless to manage the course of pretrial proceedings.¹⁹

III. The Government's Contention That Petitioners Failed To Support Their Antitrust Claims Is Meritless Because Petitioners Were Denied The Opportunity To Conduct Any Discovery In Support Of Their Claims.

The Government argues that, notwithstanding application of an incorrect legal standard below, dismissal of Petitioners' claims should be upheld as a matter of summary judgment law because "[p]etitioners failed to present

for parties from whom discovery is sought, to resist discovery demands. In the case of the jurisdiction in which this action was litigated, see, e.g., C.D. Cal. R. 6, 6.1.1, 6.1.2, 6.2, 6.4, 9.

¹⁸ See also *Zaustinsky v. Univ. of Cal.*, 96 F.R.D. 622, 626 (N.D. Cal. 1983) (Schwarzer, J.), *aff'd without op.*, 782 F.2d 1055 (9th Cir. 1985); *Lee Pharmaceuticals v. Den-Mat, Inc.*, 197 U.S.P.Q. (BNA) 62 (C.D. Cal. 1976); 6A Charles A. Wright et al., *Federal Practice and Procedure* § 1522 at pp. 226-28, § 1528 at pp. 294-95 (2d ed. 1990); 8 Charles A. Wright & Arthur R. Miller, *Federal Practice and Procedure* § 2036 n.30 (1970 and Supp. 1992), § 2051 (Supp. 1992); Arthur R. Miller, *Confidentiality, Protective Orders, and Public Access to the Courts*, 105 Harv. L. Rev. 427, 445-63 (1991).

¹⁹ The district court in this action exercised control over discovery on Petitioners' antitrust counterclaims, denying several motions to compel discovery (see 9/5/85 Tr., 3/24/86 Tr., 3/20/89 Tr.), ordering the parties to suspend discovery on the antitrust claims until the underlying copyright litigation had been resolved (3/24/86 Tr. 3-4, 7-8), and working with counsel to narrow the scope of the discovery requests (3/20/89 Tr.). See also Defendants' First Cross-Appeal Brief at 6-9.

evidence from which a reasonable jury could have determined that respondents' suit was a sham." Govt. Brief at 25. In this, the Government misinterprets this Court's teaching in *Kodak* and fails to account for the fact that, because of the Ninth Circuit's application of a flawed standard, Petitioners were denied the discovery necessary to obtain evidence in support of their antitrust counterclaims.²⁰ Of course, without discovery, the factual record was, and remains, non-existent, but this cannot be the basis for upholding summary judgment. It is a direct and necessary consequence of the error below.

In a slightly different articulation of what appears to be the same point, the Government contends that summary judgment was proper because Petitioners below failed to support a theory under which the sham exception would be applicable. Govt. Brief at 25-26. The Government argues that Petitioners' "principal" theory below was untenable. Respondents could not have "known" that their copyright claims were baseless because, argues the Government, the trial court found such claims to have been "not baseless," and Petitioners have not disputed that finding. *Id.*

Here again, the Government incorrectly interprets this Court's statement in *Kodak* that *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574 (1986), "did not introduce a special burden on plaintiffs facing summary judgment in antitrust cases," but rather placed a "substantial burden" on the party seeking summary judgment. *Kodak*, 60 U.S.L.W. at 4470. The Court in *Kodak* noted:

²⁰ The Ninth Circuit ruled in this regard:

The district court's conclusion is consistent with our holding on the *Noerr-Pennington* issue; evidence of the Movie Studios' subjective intent was relevant only if it was shown that the copyright infringement action was baseless. . . . PRE's discovery of the Movie Studios' subjective intent would not raise an issue of material fact sufficient to preclude entry of summary judgment.

[*Matsushita*] did not hold that if the moving party enunciates *any* . . . theory supporting its behavior, regardless of its accuracy in reflecting the actual market, it is entitled to summary judgment. *Matsushita* demands only that the non-moving party's inferences be reasonable in order to reach the jury, a requirement that was not invented, but merely articulated, in that decision.

Id.

In this factual setting, *Kodak* and *Matsushita* teach that Respondents cannot meet their "substantial burden" on summary judgment simply by relying on a plausible theory²¹ supporting their conduct of the copyright litigation when Petitioners' claims, viewed in the light most favorable to Petitioners, make out a "reasonable" case in opposition to Respondents' motion. Because Petitioners were denied an opportunity for discovery as a result of the flawed Ninth Circuit standard, it must be assumed, at this point, on this record, that Petitioners would have been able to acquire evidence of Respondents' subjective intent in bringing the sham copyright action to supplement Petitioners' pleading. See J.A. 38, 39, 40-41, 555, 574. No one contends that the pleading itself was insufficient. If, as pled, the evidence proved Respondents' copyright action to have been a sham under the proper standard, Petitioners would be entitled to proceed with the remainder of their antitrust case.²²

Like Respondents, the Government rejects reliance on facts obtained through discovery in favor of convoluted

²¹ This is particularly true where the movants have taken a contrary position in other litigation. See Petitioners Brief on the Merits at 3, n.1.

²² Whether Petitioners made a sufficient showing, in the form of the Rule 56(f) declaration of counsel (J.A. 569-571) and the Declaration of Kenneth F. Irwin (J.A. 566-568), to resist summary judgment, given the preclusion of discovery on the issue is a matter for *de novo* review by this Court. See, e.g., *Kodak*, 60 U.S.L.W. at 4469 n.10; *United States v. Diebold, Inc.*, 369 U.S. 654, 655 (1962).

supposition. The fact is that what Respondents knew or did not know at the time they filed the copyright action is not a matter of record in this litigation because Petitioners were denied discovery on this and all other issues bearing on Respondents' subjective intent. Under the proper standard for sham petitioning, how the trial judge appraised the vigor with which the copyright action was prosecuted (Pet. App. 7a, 15a, 24a) would not be conclusive on the question of what Respondents believed to be the benefits to them of filing it at the outset, or what they hoped to accomplish by its prosecution.

Petitioners contend that Respondents sought to injure them through the burden of the process itself. The court below agreed that burden would constitute antitrust injury. Pet. App. 10a. Petitioners alleged that they were competitors of Respondents in, among other markets, the provision of in-room video entertainment to hotel and motel guests, including the rental and sale of videodiscs as part of that service. *See, e.g.*, J.A. 38, 39, 40, 254, 256, 485, 509, 511-12, 566, 569, 629-30.²³ Injury to competition resulted from the fact that, through the institution of the sham lawsuit and by other means, Respondents were able successfully to prevent Petitioners from developing their business, and to prevent others from doing business with Petitioners. *See* Declaration of Kenneth F. Irwin, J.A. 566-568. These are indisputably well-pled claims. Petitioners are entitled to discovery upon them.

CONCLUSION

For all of the reasons set forth above, in Petitioners' Brief on the Merits, the Petition for a Writ of Certiorari, and Petitioners' Reply Brief to the Opposition to the

²³ Respondents' argument that they do not compete with Petitioners (Resp. Brief at 35 n.21) is nonsense. Respondents sought to derive revenues from the licensing of their copyrighted works for in-room hotel viewing. Resp. Brief at 3-4. If, instead of entering into a contract with a licensed distributor of Respondents' copyrighted works, a hotel could substitute the equipment sold by Petitioners, plainly Petitioners and Respondents would be competing for that hotel's business.

Petition, the decision of the Ninth Circuit should be reversed and the matter remanded with instructions that the proper standard for evaluating claims of sham litigation involves subjective intent, a question of fact, not law, and that Petitioners are entitled to pursue discovery on their federal and state law counterclaims.

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